

OFFICIAL STATEMENT**Dated: January 9, 2020**

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date hereof, subject to the matters described under "TAX MATTERS" herein.

The Bonds **are** designated as "Qualified Tax-Exempt Obligations" for financial institutions.

\$2,835,000**RIVERSIDE SPECIAL UTILITY DISTRICT****(a political subdivision located in Walker and San Jacinto Counties, Texas)****WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2020****Dated Date: January 15, 2020****Due: As shown on inside cover**

Riverside Special Utility District (the "District" or "Issuer") \$2,835,000 Water System Revenue Refunding Bonds, Series 2020 (the "Bonds") are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended, and a bond resolution (the "Bond Resolution") adopted on November 21, 2019 by the Board of Directors of the District. In the Bond Resolution, the Board of Directors delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved a "Pricing Certificate" on January 9, 2020, which contains the final terms of sale and completed the sale of the Bonds (the Bond Resolution and the Pricing Certificate are jointly referred to herein as the "Resolution"). (See "THE BONDS - Authority for Issuance" herein.)

The Bonds are special obligations of the District payable solely from and, equally and ratably secured by a first lien on and pledge of Net Revenues (as defined in the Resolution). **The Bonds do not constitute a general obligation of the District, and the holders of the Bonds shall not have the right to demand payment thereof from any funds raised or to be raised by taxation. The District has no taxing power.** (See "THE BONDS - Security for Payment" herein.)

Interest on the Bonds will accrue from January 15, 2020 (the "Dated Date") and will be payable on April 1 and October 1 of each year commencing April 1, 2020, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System"). The initial Paying Agent/Registrar is UMB Bank, Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

Proceeds from the sale of the Bonds will be used to refund, for debt service savings, certain outstanding debt obligations of the District (the "Refunded Obligations") (See Schedule I attached hereto) and to pay the costs related to the issuance of the Bonds and the refunding of the Refunded Obligations. (See "PLAN OF FINANCING- Purpose" herein.)

The District reserves the right, at its option, to redeem the Bonds maturing on or after April 1, 2030, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and if within a maturity by lot), on April 1, 2029, or any date thereafter, at the par value plus accrued interest to the date fixed for redemption. (See "THE BONDS - Redemption Provisions" herein.)

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP.

**STATED MATURITY SCHEDULE****(On Page ii)**

The Bonds are offered for delivery, when, as and if issued, and received by the initial purchaser named below (the "Underwriter") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The legal opinion of Bond Counsel will be printed on, or will accompany, the Bonds. Certain matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, San Antonio, Texas. It is expected that the Bonds will be available for delivery through DTC on or about January 30, 2020.

SAMCO CAPITAL MARKETS

**RIVERSIDE SPECIAL UTILITY DISTRICT
WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2020**

**MATURITY SCHEDULE
(Due April 1)**

Base CUSIP Number: 769281

<u>Stated Maturity</u> ⁽¹⁾	<u>Principal Amount*</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP Suffix</u> ⁽³⁾
2020	\$ 160,000	3.000	1.230	<u>AA4</u>
2021	140,000	3.000	1.280	<u>AB2</u>
2022	145,000	3.000	1.330	<u>AC0</u>
2023	145,000	3.000	1.390	<u>AD8</u>
2024	155,000	3.000	1.510	<u>AE6</u>
2025	160,000	3.000	1.650	<u>AF3</u>
2026	160,000	3.000	1.810	<u>AG1</u>
2027	165,000	3.000	1.920	<u>AH9</u>
2028	170,000	4.000	2.000	<u>AJ5</u>
2029	185,000	4.000	2.090	<u>AK2</u>
2030	190,000	4.000	2.140 ⁽²⁾	<u>AL0</u>
2031	195,000	4.000	2.180 ⁽²⁾	<u>AM8</u>
2032	200,000	3.000	2.400 ⁽²⁾	<u>AN6</u>
2033	215,000	3.000	2.470 ⁽²⁾	<u>AP1</u>
2034	220,000	3.000	2.530 ⁽²⁾	<u>AQ9</u>
2035	230,000	3.000	2.550 ⁽²⁾	<u>AR7</u>

(Interest to accrue from the Dated Date)

- ⁽¹⁾ The Bonds maturing on or after April 1, 2030 are subject to redemption, in whole or in part at the option of the District, on April 1, 2029 or any date thereafter. (See "THE BONDS – Redemption Provisions").
- ⁽²⁾ The initial yields will be established by and are the sole responsibility of the Underwriter, and may be subsequently changed.
- ⁽³⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the District or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, which includes the cover page, Schedule I and the 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.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.

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

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS PRELIMINARY OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM 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.

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

ASSURED GUARANTY MUNICIPAL CORP. ("AGM") MAKES NO REPRESENTATION REGARDING THE BONDS OR THE ADVISABILITY OF INVESTING IN THE BONDS. IN ADDITION, AGM HAS NOT INDEPENDENTLY VERIFIED, MAKES NO REPRESENTATION REGARDING, AND DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT OR ANY INFORMATION OR DISCLOSURE CONTAINED HEREIN, OR OMITTED HEREFROM, OTHER THAN WITH RESPECT TO THE ACCURACY OF THE INFORMATION REGARDING AGM SUPPLIED BY AGM AND PRESENTED UNDER THE HEADING "BOND INSURANCE" AND "APPENDIX F - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

RIVERSIDE SPECIAL UTILITY DISTRICT
3662 Hwy 19
Riverside, Texas 77367
(936) 594-5793

ELECTED OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Date First Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Bill Tutor	President	2018	2021	Realtor
Philip Hons	Vice President	2019	2022	Retired
Jess Paddy, Jr.	Secretary/Treasurer	2019	2022	Small Business Owner
Charles Tumey	Director	2017	2020	Retired
Jason Thompson	Director	2018	2021	Truck Driver

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Years in Current Role</u>	<u>Years at District</u>
Robert Nettles	General Manager	6 Years	6 Years
Karon Murff	CFO	7 years	7 years
Chelsey Siercks	Office Manager	1 year	2 years

CONSULTANTS AND ADVISORS

Bond Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Financial Advisor	Hilltop Securities Inc. Dallas, Texas

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this page from this Official Statement or to otherwise use it without the entire Official Statement. Capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in the Bond Resolution authorizing the issuance of the Bonds.

The Issuer	Riverside Special Utility District (the “District” or “Issuer”) is a political subdivision of the State of Texas created and functioning as a conservation and reclamation district under Article 16, Section 59, of the Texas Constitution, pursuant to Chapter 65, as amended, of the Texas Water Code. The District serves approximately 2,050 customers within Walker and San Jacinto Counties. (See “Appendix B - General Information Regarding Riverside Special Utility District” herein.)
The Bonds	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Chapter 1207, Texas Government Code, as amended and a bond resolution (the “Bond Resolution”) adopted on November 21, 2019 by the Board of Directors of the District (the “Board”). In the Bond Resolution, the Board of Directors delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who approved a “Pricing Certificate” on January 9, 2020 which contains the final terms of sale and completed the sale of the Bonds (the Bond Resolution and the Pricing Certificate are jointly referred to herein as the “Resolution”). (See “THE BONDS - Authority for Issuance” herein.)
Payment of Interest on the Bonds	Interest on the Bonds accrues from the Dated Date to and is payable on April 1 and October 1 of each year, beginning April 1, 2020, until stated maturity or prior redemption (see “THE BONDS – Optional Redemption”).
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, Dallas, Texas.
Security	The Bonds are special obligations of the District payable solely from and equally and ratably secured by a first lien on and pledge of Net Revenues (as defined in the Resolution). <i>The Bonds do not constitute a general obligation of the District, and the holders of the Bonds shall not have the right to demand payment thereof from any funds raised or to be raised by taxation. The District has no taxing power.</i> (See “THE BONDS - Security for Payment” herein.)
Redemption Provisions	The District reserves the right, at its option, to redeem the Bonds maturing on or after April 1, 2030, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and if within a maturity by lot), on April 1, 2029, or any date thereafter, at the par value plus accrued interest to the date fixed for redemption. (See “THE BONDS - Redemption Provisions” herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under “TAX MATTERS” herein. (See “TAX MATTERS” and “Appendix C - Form of Legal Opinion of Bond Counsel” herein.)
Qualified Tax-Exempt Obligations	The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District covenanted to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as “qualified tax-exempt obligations.” (See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions” herein.)
Use of Bond Proceeds	Proceeds from the sale of the Bonds are being used to refund for debt service savings certain outstanding debt obligations of the District (See Schedule I attached hereto) and to pay the costs related to the issuance of the Bonds and the refunding of the Refunded Obligations. (See “PLAN OF FINANCING- Purpose” herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York described herein. No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Such Book-Entry-Only System may affect the method and timing of payments on the Bonds and the manner by which the Bonds may be transferred. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)
Bond Insurance	Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement. (See “BOND INSURANCE,” “BOND INSURANCE RISK FACTORS” and “OTHER PERTINENT INFORMATION—Rating” herein.)

Payment Record

The District has never defaulted on its debt obligations.

Additional Debt

The District does not anticipate the issuance of any additional debt in the next 12 months.

Delivery

When issued, anticipated on or about January 30, 2020.

Legality

Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel.

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by Riverside Special Utility District (the "District" or "Issuer") of its \$2,835,000 Water System Revenue Refunding Bonds, Series 2020 (the "Bonds") identified on the cover page hereof.

Riverside Special Utility District (the "District" or "Issuer") is a political subdivision of the State of Texas created and functioning as a conservation and reclamation district under Article 16, Section 59, of the Texas Constitution, pursuant to Chapter 65, as amended, of the Texas Water Code. The District serves approximately 2,050 customers within Walker and San Jacinto Counties. (See "Appendix B - General Information Regarding Riverside Special Utility District" herein.)

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution (see Appendix E – Selected Provisions of the Resolution). Included in this Official Statement are descriptions of the Bonds and certain information about the Issuer and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT** (see Appendix E – Selected Provisions of the Resolution). Copies of such documents may be obtained from the Issuer or the Financial Advisor.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds are being used to refund for debt service savings certain outstanding debt obligations of the District (collectively, the "Refunded Obligations") (see Schedule I attached hereto) and to pay the costs related to the issuance of the Bonds and the refunding of the Refunded Obligations.

Refunded Obligations

The principal and interest due on the Refunded Obligations are to be paid on the interest payment dates and the redemption dates thereof from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and UMB Bank, Dallas, Texas (the "Escrow Agent"). The Resolution provides that from the proceeds of the sale of the Bonds received from the Underwriter, the District will deposit with the Escrow Agent the amount that, together with investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations.

Public Finance Partners LLC will issue its report (the "Report") verifying at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the Bonds (see "VERIFICATION OF MATHEMATICAL COMPUTATIONS").

By the deposit of the Escrowed Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Obligations in accordance with State law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the verification report of Public Finance Partners LLC, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent and the Refunded Obligations will not be deemed as being outstanding obligations of the District payable from the Net Revenues nor for the purpose of applying any limitation on the issuance of debt.

SOURCES AND USES OF FUNDS

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

<u>Sources of Funds</u>	
Principal Amount	\$ 2,835,000.00
Accrued Interest	3,852.09
Premium	207,921.60
Total Sources of Funds	\$ 3,046,773.69

<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ 2,934,670.82
Deposit to Debt Service Fund	5,051.31
Costs of Issuance	67,000.00
Bond Insurance Premium	12,187.67
Underwriter's Discount	27,863.89
Total Uses of Funds	\$ 3,046,773.69

THE BONDS

General

The Bonds will be dated January 15, 2020. The Bonds will accrue interest from the Dated Date, and such interest is payable on April 1 and October 1 in each year, commencing on April 1, 2020, until stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page ii of this Official Statement, and such interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Interest on the Bonds is payable to the registered owner appearing on the bond registration books of the Paying Agent/Registrar on the Record Date (as defined below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States Mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at maturity or 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 Bonds, all payments will be made as described under "THE BONDS - Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the 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 Bonds will be issued only in fully registered form and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. The Bonds will be issued in denominations of \$5,000 of principal amount or any integral thereof within a maturity. The principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and laws of the State, particularly Texas Government Code, Chapter 1207, as amended, and the Resolution.

Security for Payment

The Bonds are special obligations of the District payable solely from and equally and ratably secured by a first lien on and pledge of Net Revenues (as defined in the Resolution). ***The Bonds do not constitute a general obligation of the District, and the holders of the Bonds shall not have the right to demand payment thereof from any funds raised or to be raised by taxation. The District has no taxing power.***

Reserve Fund

As additional security for the payment of Parity Obligations, the Resolution provides for the District maintain a Reserve Fund and accumulate and maintain therein an amount (the "Required Reserve") equal to Maximum Annual Debt Service; provided, however, that if for three consecutive Fiscal Years the amount of the Net Revenues is equal to or greater than 2.00 times the amount of the Maximum Annual Debt Service, the amount of the Required Reserve shall be \$0.00; provided, however, that any Credit Facility deposited to the credit of the Reserve Fund shall remain on deposit for the life of the Parity Obligations secured by said Credit Facility. **It is anticipated that the amount of the Required Reserve will be \$0.00 as of the Delivery Date.**

As directed by the Pricing Officer in the Pricing Certificate, the Required Reserve amount for the Series 2020 Bonds may be funded by the deposit to the Reserve Fund of: (i) proceeds of Series 2020 Bonds on the Issuance Date and in the amount necessary to fully fund the Required Reserve as of said Issuance Date, (ii) a Credit Facility in the amount necessary to fully fund the Required Reserve as of the Issuance Date, or (iii) monthly transfers of cash in 1/36th of the amount necessary to fully fund the Required Reserve as of the Issuance Date, beginning on the 25th day of the month following the month of in which the Series 2020 Bonds are issued. If so funded with a Credit Facility or cash (whether at the time of delivery of the Series 2020 Bonds or by monthly deposits over time), a cash amount (or investments of cash) or the face value of a Credit Facility shall at least equal the Required Reserve. All funds, investments and Credit Facilities on deposit and credited to the Reserve Fund shall be used solely for (i) the payment of the principal of and interest on the Series 2020 Bonds, when and to the extent other funds available for such purposes are insufficient, (ii) to make Credit Facility Payments and (iii) to the extent not required to maintain the Required Reserve, to pay, or provide for the payment of, the final principal amount of the Series 2020 Bonds so that the Series 2020 Bonds are no longer deemed to be "Outstanding" as such term is defined in the Resolution, or (iv) as provided in clause (d) below, any excess amount in the Reserve Fund may be transferred to the Revenue Fund and allocated in accordance with Section 10 of the Resolution. Subject to approval by the Board of Directors and the Attorney General of the State of Texas., the Issuer may at any time substitute a qualifying Credit Facility for all or part of the cash or other Credit Facility on deposit in, or held for the benefit of, the Reserve Fund.

Redemption Provisions

The Bonds maturing on April 1, 2030 and thereafter are subject to redemption, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any multiple thereof on any date beginning April 1, 2029 at the redemption price of par plus accrued interest. If less than all of the Bonds subject to redemption are to be redeemed, the District shall determine the amounts of each maturity or maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, within such maturity or maturities to be redeemed.

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

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

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

Funds

The Resolution requires the establishment and maintenance of the following funds: (1) Riverside Special Utility District Water System Revenue Fund, hereinafter called the "Revenue Fund", has been established and shall be maintained in a Depository, (2) Riverside Special Utility District Water System Interest and Sinking Fund, hereinafter called the "Interest and Sinking Fund", has been established and shall be maintained in a Depository, and such funds are to be kept separate and apart for all other funds and accounts of the District and moneys deposited to the credit of such funds shall be used and expended as provided in the Resolution.

Flow of Funds

In the Resolution, all Net Revenues shall be deposited from time to time as received into the Revenue Fund. All Net Revenues shall be credited to the Revenue Fund immediately upon receipt. All Net Revenues deposited into the Revenue Fund shall promptly be transferred to the following funds in the following order of priority:

FIRST: To the payment of the amounts required to be deposited in the Interest and Sinking Fund for the payment of Debt Service on the Parity Obligations as the same becomes due and payable;

SECOND: To the payment of the amounts required to be deposited in a Reserve Fund pursuant to this Resolution or any resolution relating to the issuance of Parity Obligations;

THIRD: To the payment of amounts required to be deposited in any other fund or account required by any resolution authorizing the issuance of Parity Obligations; and

FOURTH: To any fund or account held at any place or places, or to any payee, required by any other resolution of the Board which authorized the issuance of obligations or the creation of debt of the Issuer having a lien on the Net Revenues subordinate to the lien created herein on behalf of the Parity Obligations.

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

Rate Covenants

The Issuer will at all times fix, maintain, charge, and collect for services rendered by the Riverside Special Utility District Water System (the "Water System"), rates and charges which will produce Net Revenues of the Issuer's Water System not less than 1.0 times the amount which, together with other revenues of the Issuer, if any, is required to pay all Debt Service on all Outstanding Parity Obligations and to make all other deposits now or hereafter required to be made into the Funds created by this Bond Resolution in connection with the Parity Obligations.

Additional Bonds

In the Resolution, the District reserves the right to issue Additional Bonds for any lawful purpose (including the refunding of the Bonds or any other bonds or obligations of the District issued in connection with or payable from the revenues of the System), payable from and secured by a parity lien on the Net Revenues of the Water System, and the Bonds, the Previously Issued Obligations and Additional Bonds shall be equally and ratably secured by a parity lien on the Net Revenues in all respects; provided certain terms and condition prescribed for the issuance of such Additional Bonds are satisfied. Among the terms and conditions to be satisfied is the District obtaining a written certificate from a certified public accountant or professional engineer to the effect that during either the next preceding Fiscal Year, or any twelve consecutive calendar month period ending not later than 90 days preceding the month in which the resolution authorizing the issuance of the then proposed Additional Bonds is passed, the Net Revenues of the Water System were at least 1.25 times the average annual principal and interest requirements on all Parity Obligation to be Outstanding after the delivery of the then proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Net Revenues for the purposes described above, if there has been any increase in the rates or charges for services of the Water System which is then in effect but which was not in effect during all of the entire period for which the Net Revenues of the Water System are being calculated (hereinafter referred to as the "entire period") then the implementation of such Net Revenues may be incorporated into the District's certification if a certified public accountant or professional engineer determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues of the Water System for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the Water System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.

Payment Record

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

Legality

The Bonds are offered when, as and if issued, subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The legal opinion of Bond Counsel will accompany or will be printed on the Bonds. A form of the legal opinion of Bond Counsel appears in Appendix C attached hereto.

Defeasance

The Resolution provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized entity, in trust (1) money sufficient to make such payment or (2)

Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Resolution provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligation of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are, on the date the Board approves such defeasance, rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are, on the date the Board approves such defeasance, rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded as being outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Resolution or treated as debt of the District or applying any limitation on the District's ability to issue debt or for any other purpose.

Amendments

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

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

Default and Remedies

The Resolution specifies the following events of default: (i) the failure of the Issuer to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable or (ii) default in the performance or observance of any other covenant, agreement or obligation of the Issuer, which failure materially, adversely affects the rights of the Registered Owners, including, but not limited to, their prospect or ability to be repaid in accordance with the Resolution, and the continuation thereof for a period of 60 days after notice of such default is given by any Registered Owner to the Issuer. Upon an event of default, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Resolution and the District's

obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Resolution does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the District to perform in accordance with the terms of the Resolution, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the District for breach of the covenants contained in the Bonds or the Resolution. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce any lien to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). 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 holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by principals of governmental immunity, and by general principles of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, Dallas, Texas. In the Resolution, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a commercial bank, a trust company, financial institution or other entity qualified and authorized to serve in such capacity. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid.

The Bonds will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity upon presentation to the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Record Date

The record date ("Record Date") for interest payable to the registered owner of a Bond on any interest payment date means the fifteenth day of the month next preceding such interest payment date.

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

Future Registration, Transfer and Exchange

The Bonds are initially to be issued utilizing the Book-Entry-Only System of DTC. In the event such Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to the owners of the Bonds and thereafter, the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to

the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class postage prepaid, to the new registered owner. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Bond or Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be initially utilized in regard to ownership and transferability of the Bonds.)

Replacement Bonds

In case any Bond shall be mutilated, destroyed, lost or stolen, the Paying Agent/Registrar may execute and deliver a replacement Bond of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Bond, or in lieu of and in substitution for such destroyed, lost or stolen Bond, only upon the approval of the District and after (i) the filing by the Holder thereof with the Paying Agent/Registrar of evidence satisfactory to the Paying Agent/Registrar of the destruction, loss or theft of such Bond, and of the authenticity of the ownership thereof and (ii) the furnishing to the Paying Agent/Registrar of indemnification in an amount satisfactory to hold the District and the Paying Agent/Registrar harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond shall be borne by the Holder of the Bond mutilated, or destroyed, lost or stolen.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure), and structured finance markets and, as of October 1, 2019, asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On December 19, 2019, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On November 7, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Capitalization of AGM

At September 30, 2019:

The policyholders' surplus of AGM was approximately \$2,473 million.

The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,100 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.

The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,829 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019);
- the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019);
- the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (filed by AGL with the SEC on August 8, 2019); and
- the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019 (filed by AGL with the SEC on November 8, 2019).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

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

BOND INSURANCE RISK FACTORS

General

If a commitment from a bond insurance company (the “Insurer”) to provide a municipal bond insurance policy relating to the Bonds (the “Policy”) is obtained, the following risk factors generally apply.

In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the Bonds owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District (unless the Insurer chooses to pay such amounts at an earlier date). Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see “THE BONDS - Defaults and Remedies”). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the holders of the Bonds.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the District. In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

If a Policy is acquired, the long-term ratings on the Bonds will be dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the ratings on the Bonds, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds. See the disclosure described in “OTHER PERTINENT INFORMATION - Rating” herein. The obligations of the Insurer under a Policy are general obligations of the Insurer and in an event of default by the Insurer the remedies available may be limited by applicable bankruptcy law. Neither the District nor the Financial Advisor has made independent investigation into the claims-paying ability of any Insurer and no assurance or representation regarding the financial strength or projected financial strength of any Insurer is given.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of

Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity 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 certificated securities. 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 SEC. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

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

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

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

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered. (See "REGISTRATION, TRANSFER, AND EXCHANGE" herein.)

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

Use of Certain Terms in Other Sections of this Official Statement

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

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE ISSUER

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board of Directors. Both State law and the District's investment policies are subject to change. Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) 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 (iv) the District appoints as its custodian of the banking deposits, in compliance with the Public Funds Investment Act (Chapter 2256, Government Code), as amended (the "PFIA"), the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above, clause (12) below, or, if applicable, which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, or the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral 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 designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) 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 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.

Under State law, the District may 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 of 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 has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

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

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

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio, requires an interpretation of subjective investment standards or 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 non-money market 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.

Current Investments

As of September 30, 2019, the District's investable funds in the amount of \$645,264.34 were invested as follows:

Money Market	\$ 645,264.34
Total	<u>\$ 645,264.34</u>

RETIREMENT PLAN AND OTHER POST RETIREMENT BENEFITS

The District participates in the Texas County and District Retirement System (TCDRS), which is a statewide agent multiple-employer, public employee retirement system. The District provides pensions for all its full-time employees through TCERS. For more detailed information concerning the District's funding policy and contributions in connection with the TCERS, see Appendix D, "Excerpts from the Issuer's Annual Financial Report".

LEGAL MATTERS

The District will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding special obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel. A form of such opinion is attached hereto as Appendix C.

The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds, will also be furnished. In connection with the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District. Though it may represent the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "PLAN OF FINANCING—REFUNDED OBLIGATIONS," "THE BONDS" (except under the subcaptions "Payment Record" and "Default and Remedies"), "REGISTRATION, TRANSFER AND EXCHANGE", "LEGAL MATTERS" (excluding the last two sentences of the second paragraph thereof), "TAX MATTERS", "OTHER PERTINENT INFORMATION- Registration and Qualification of Bonds for Sale" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Agreements"), and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Resolution.. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, San Antonio, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that 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.

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) the District's federal tax certificate and the verification report relating to the refunding of the Refunded Bonds, (b) covenants of the District with respect to arbitrage and the use of the proceeds of the Bonds and the Refunded Bonds and the property financed or refinanced therewith, and the report of Public Finance Partners LLC verifying the sufficiency of the amounts deposited to the Escrow Fund to pay the Refunded Obligations on their redemption date. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively

to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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. 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 Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

Future and Proposed Legislation

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Qualified Tax Exempt Obligations for Financial Institutions

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds unless it amends or repeals the agreement as described below. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available to securities brokers and others at no charge via the MSRB's Electronic Municipal Market Access ("EMMA") System at www.emma.msrb.org.

Annual Reports

The District will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in or after 2020. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12 month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site identified below or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The District's current fiscal year end is December 31. Accordingly, the District must provide audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) on or before December 31 of the following year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

Event Notices

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

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur; the appointment of a receiver, fiscal agent, or similar officer for the Issuer 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 Issuer, 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 Issuer. For the events listed in clause (15) and (16) above, the term "financial obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of either (A) or (B). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Limitations and Amendments

The Issuer has agreed to update information and to provide notices of events only as described above. The Issuer 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 Issuer makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Issuer disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Bonds may seek a writ of mandamus to compel the Issuer to comply with its agreement.

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

Compliance with Prior Agreements

During the last five years, the Issuer has complied in all material respects with all previous continuing disclosure agreements made in accordance with the Rule.

OTHER PERTINENT INFORMATION

Registration and Qualification of Bonds for Sale

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

Litigation

Various claims and lawsuits are pending against the District, but in the view of the District's Attorney, none of such matters potentially pose a risk of material negative impact on the financial condition of the District.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, as amended, and are 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. Furthermore, Section 65.511 of the Texas Water Code provides that the Bonds are legal and authorized investments for all banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, and trustees, guardians, and for interest and sinking funds and other public funds of the state and its agencies, including the permanent school fund, and counties, cities, school districts, and other political subdivisions of the state. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER PERTINENT INFORMATION – Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their fair market value.

No representation is made that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Bonds for such purposes.

Rating

S&P Global Ratings, ("S&P") has assigned its credit rating of "AA" to the Bonds based upon a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp.(see "BOND INSURANCE" herein.).

The rating of the Bonds by S&P reflects only the view of said company at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that such a rating will continue for any given period of time, or that it will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

Verification of Arithmetical and Mathematical Calculations

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrow Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District's retained advisors, consultants or legal counsel. with this engagement.

Underwriting

The Underwriter has agreed, subject to certain conditions specified in a bond purchase agreement, to purchase the Bonds from the District at a price equal to the initial public offering prices, as shown on page ii of this Official Statement, less an underwriting discount of \$27,863.89, plus accrued interest. The Underwriter will be obligated to purchase all of the Bonds, if the Bonds are purchased. The Bonds may be offered and sold to certain dealers (including the Underwriter and other dealers depositing the Bonds into investment trusts) and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

Financial Advisor

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

Forward-Looking Statements Disclaimer

The statements contained in this Official Statement, and in any other information provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer'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 Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. The Issuer's actual results could differ materially from those discussed in such forward-looking statements.

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

CONCLUDING STATEMENT

This Official Statement has been prepared using information received from the District and other sources, which is considered to be reliable. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates, and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

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

The Resolution authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriter. This Official Statement has been approved by the Pricing Officer of the District for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.

RIVERSIDE SPECIAL UTILITY DISTRICT

Robert Nettles
Pricing Officer
Riverside Special Utility District

**SCHEDULE I
SCHEDULE OF REFUNDED BONDS**

RIVERSIDE SPECIAL UTILITY DISTRICT

Water System Revenue Bonds, Series 2009A

Original Maturity (April 1)	Principal Amount Outstanding	Interest Rate	Principal Amount to be Refunded	Principal Amount Remaining	Date of Redemption
2020	\$ 75,000	4.840%	\$ 75,000	\$ -	4/1/2020
2021	80,000	4.899%	80,000	-	4/1/2020
2022	85,000	4.939%	85,000	-	4/1/2020
2023	90,000	4.989%	90,000	-	4/1/2020
2024	90,000	5.009%	90,000	-	4/1/2020
2025	100,000	5.048%	100,000	-	4/1/2020
2026	100,000	5.078%	100,000	-	4/1/2020
2027	110,000	5.107%	110,000	-	4/1/2020
2028	115,000	5.187%	115,000	-	4/1/2020
2029	125,000	5.187%	125,000	-	4/1/2020
2030	130,000	5.186%	130,000	-	4/1/2020
2031	135,000	5.186%	135,000	-	4/1/2020
2032	215,000	5.186%	215,000	-	4/1/2020
2033	225,000	5.226%	225,000	-	4/1/2020
2034	235,000	5.226%	235,000	-	4/1/2020
2035	250,000	5.225%	250,000	-	4/1/2020
2036	32,000	5.225%	32,000	-	4/1/2020
	<u>\$ 2,192,000</u>		<u>\$ 2,192,000</u>	<u>\$ -</u>	

Water System Revenue Bonds, Series 2009B

Original Maturity (April 1)	Principal Amount Outstanding	Interest Rate	Principal Amount to be Refunded	Principal Amount Remaining	Date of Redemption
2020	\$ 35,000	5.330%	\$ 35,000	\$ -	4/1/2020
2021	40,000	5.380%	40,000	-	4/1/2020
2022	40,000	5.430%	40,000	-	4/1/2020
2023	45,000	5.430%	45,000	-	4/1/2020
2024	45,000	5.480%	45,000	-	4/1/2020
2025	50,000	5.530%	50,000	-	4/1/2020
2026	50,000	5.580%	50,000	-	4/1/2020
2027	55,000	5.630%	55,000	-	4/1/2020
2028	55,000	5.630%	55,000	-	4/1/2020
2029	60,000	5.680%	60,000	-	4/1/2020
2030	65,000	5.730%	65,000	-	4/1/2020
2031	65,000	5.730%	65,000	-	4/1/2020
2032	70,000	5.780%	70,000	-	4/1/2020
	<u>\$ 675,000</u>		<u>\$ 675,000</u>	<u>\$ -</u>	

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APPENDIX A

FINANCIAL INFORMATION OF THE ISSUER

(This appendix contains quantitative financial information and operating data with respect to the Issuer. The information is only a partial representation and does not purport to be complete. For further and more complete information, reference should be made to the original documents, which can be obtained from various sources, as noted.)

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FINANCIAL INFORMATION OF THE ISSUER

REVENUE BOND DEBT OUTSTANDING

TABLE 1

Revenue Bond Debt Principal Outstanding: (As of December 19, 2019)

Water System Revenue Bonds, Series 2009A	\$ 2,192,000
Water System Revenue Bonds, Series 2009B	675,000
Outstanding Revenue Debt Principal	\$ 2,867,000
Less Refunded Bonds (see Schedule I)	\$ (2,867,000)
Water System Revenue Refunding Bonds, Series 2020 (The Bonds)	2,835,000
Total Revenue Bond Debt Principal Outstanding Following the Issuance of the Bonds	\$ 2,835,000
Less: I&S Fund Balance (as of 9/30/2019 unaudited)	343,757
Net Revenue Bond Debt Outstanding	\$ 2,491,243
Net Revenue Bond Debt Principal Per 2019 Water Connection ⁽¹⁾	\$ 1,221

⁽¹⁾ Based on 2041 connections

CONDENSED WATERWORKS AND SEWER SYSTEM OPERATING STATEMENTS

TABLE 2

	Fiscal Year Ended December 31				
	2019 *	2018	2017	2016	2015 ^(c)
Revenues ^(a)	\$1,341,331	\$ 1,604,676	\$ 1,565,200	\$ 1,436,470	\$ 1,528,742
Expenses ^(b)	609,020	964,234	956,806	932,018	957,516
Net Available for Debt Service	\$ 732,311	\$ 640,442	\$ 608,394	\$ 504,452	\$ 571,226
Annual Debt Service Requirements	\$263,056	\$263,281	\$258,044	\$291,271	\$319,313
Coverage	2.78 X	2.43 X	2.36 X	1.73 X	1.79 X
Customer Count					
Water	2,041	2,041	2,034	2,003	1,951

Source: Riverside SUD Annual Financial Report and other information provided by the District

* January - October, 2019; Unaudited

(a) Includes earnings on investments

(b) Expenses exclude depreciation

(c) In 2015 the district changed their FYE from June 30 to December 31. FYE 2015 reflects both audits.

PRO FORMA COVERAGE FACTORS OF THE CITY'S REVENUE DEBT

TABLE 3

2019 Net Revenues Available for Debt Service (Unaudited)	\$ 732,311
Maximum Debt Service Requirement Upon the Issuance of the Bonds (2032)	\$ 233,450
Coverage	3.14
Average Annual Debt Service Requirement Upon Issuance of the Bonds (2020-2036)	\$ 226,317
Coverage	3.24

REVENUE BOND DEBT SERVICE REQUIREMENTS

TABLE 4

Fiscal Year Ending Dec. 31	Outstanding Revenue Debt Service	Less: Debt Svc. on Refunded Bonds	The Bonds			Total Debt Service
			Principal	Interest	Total	
2020	\$ 257,607	\$ (257,607)	\$ 160,000	\$ 63,342	\$ 223,342	\$ 223,342
2021	261,824	(261,824)	140,000	85,550	225,550	225,550
2022	260,603	(260,603)	145,000	81,275	226,275	226,275
2023	263,951	(263,951)	145,000	76,925	221,925	221,925
2024	256,997	(256,997)	155,000	72,425	227,425	227,425
2025	264,604	(264,604)	160,000	67,700	227,700	227,700
2026	256,763	(256,763)	160,000	62,900	222,900	222,900
2027	263,472	(263,472)	165,000	58,025	223,025	223,025
2028	259,584	(259,584)	170,000	52,150	222,150	222,150
2029	265,108	(265,108)	185,000	45,050	230,050	230,050
2030	264,929	(264,929)	190,000	37,550	227,550	227,550
2031	259,333	(259,333)	195,000	29,850	224,850	224,850
2032	331,372	(331,372)	200,000	22,950	222,950	222,950
2033	257,895	(257,895)	215,000	16,725	231,725	231,725
2034	255,875	(255,875)	220,000	10,200	230,200	230,200
2035	258,203	(258,203)	230,000	3,450	233,450	233,450
2036	32,836	(32,836)	-	-	-	-
	<u>\$ 4,270,958</u>	<u>\$ (4,270,958)</u>	<u>\$ 2,835,000</u>	<u>\$ 786,067</u>	<u>\$ 3,621,067</u>	<u>\$ 3,621,067</u>

PRINCIPAL REPAYMENT SCHEDULE**TABLE 5**

Fiscal Year Dec 31	Outstanding Principal	Refunded Bonds	The Bonds	Total	Bonds Unpaid at End of the Year	Percent of Principal Retired (%)
2020	\$ 110,000	\$ (110,000)	\$ 160,000	\$ 160,000	2,675,000	5.64%
2021	120,000	(120,000)	140,000	140,000	2,535,000	10.58%
2022	125,000	(125,000)	145,000	145,000	2,390,000	15.70%
2023	135,000	(135,000)	145,000	145,000	2,245,000	20.81%
2024	135,000	(135,000)	155,000	155,000	2,090,000	26.28%
2025	150,000	(150,000)	160,000	160,000	1,930,000	31.92%
2026	150,000	(150,000)	160,000	160,000	1,770,000	37.57%
2027	165,000	(165,000)	165,000	165,000	1,605,000	43.39%
2028	170,000	(170,000)	170,000	170,000	1,435,000	49.38%
2029	185,000	(185,000)	185,000	185,000	1,250,000	55.91%
2030	195,000	(195,000)	190,000	190,000	1,060,000	62.61%
2031	200,000	(200,000)	195,000	195,000	865,000	69.49%
2032	285,000	(285,000)	200,000	200,000	665,000	76.54%
2033	225,000	(225,000)	215,000	215,000	450,000	84.13%
2034	235,000	(235,000)	220,000	220,000	230,000	91.89%
2035	250,000	(250,000)	230,000	230,000	-	100.00%
2036	32,000	(32,000)	-	-	-	100.00%
	<u>\$ 2,867,000</u>	<u>\$ (2,867,000)</u>	<u>\$ 2,835,000</u>	<u>\$ 2,835,000</u>		

ENTERPRISE FUND BALANCES**TABLE 6***(As of September 30, 2019, unaudited)*

General Fund	\$ 316,589
Interest & Sinking	343,757
Revenue Fund	
Capital Projects	645,264
Other	112,444
	<u>\$ 1,418,054</u>

Source: The District.

REVENUE BONDS AUTHORIZED BUT UNISSUED**TABLE 7**

NONE

Fiscal Year Ended 12/31	Water Usage in Gallons			Water Revenue
	Average Daily Usage	Peak Day Usage	Total Usage (Pumped)	
2015	256,711.30	338,077.57	93,699,624	\$ 1,270,572.74
2016	374,103.02	1,123,279.46	136,547,600	1,435,639.97
2017	266,668.22	354,430	127,427,200	1,449,034.09
2018	297,288.77	443,045.17	174,138,400	1,616,648.18
2019*	280,307.24	357,277.42	85,213,400	1,348,299.10

*As of October

TEN LARGEST WATER WATER CUSTOMERS (BASED ON GALLONS CONSUMED)

TABLE 9

Customer	Type of Industry	Yearly Water Usage	% of Total Water Usage (Pumped)	Water Revenue	% of Total Water Revenue
Carolina Christian Camp	Camp	5,463,300	2.92%	\$ 51,484.50	3.28%
Bayes Achievement Center	Child Residential	2,331,300	1.25%	26,044.42	1.66%
Hasan Alam	RV Park & Laundry Mat	943,500	0.50%	11,756.36	0.75%
Clasy RV Park	RV Park	868,600	0.46%	10,138.55	0.64%
Heartland RV Park	RV Park	742,700	0.40%	8,589.26	0.55%
Riverside Adventures	RV Park	731,700	0.39%	8,948.65	0.57%
Sam Houston State University	College	582,400	0.31%	14,449.79	0.92%
Moh Karim	Gas Station & Laundry Mat	528,100	0.28%	6,818.98	0.43%
Elizabeth Hukill	Restaurant	464,700	0.25%	4,607.02	0.29%
Tallents Sausage & Grocery	Grocery	400,000	0.21%	6,010.49	0.38%
		<u>13,056,300</u>	<u>6.97%</u>	<u>\$ 148,848.02</u>	<u>9.47%</u>

MONTHLY WATER RATES (Effective January 1, 2018)

TABLE 10

\$33.00 Minimum monthly charge for zero (0) usage

Gallons Used	Rate
0 - 2,000	\$5.65 per thousand gallons
2,001 - 4,000	\$6.65 per thousand gallons
4,000 +	\$7.15 per thousand gallons

1 - inch meter minimum monthly charge for zero (0) usage:	\$82.50
2 - inch meter minimum monthly charge for zero (0) usage:	\$264.00
3 - inch meter minimum monthly charge for zero (0) usage:	\$495.00
4 - inch meter minimum monthly charge for zero (0) usage:	\$825.00

APPENDIX B

**GENERAL INFORMATION REGARDING RIVERSIDE SPECIAL UTILITY DISTRICT
AND WALKER COUNTY, TEXAS**

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**GENERAL INFORMATION REGARDING RIVERSIDE SPECIAL UTILITY DISTRICT
AND WALKER COUNTY, TEXAS**

Riverside Special Utility District is a water utility with 9 employees that services around 2,050 customers within Walker and San Jacinto Counties. Its water source is the Gulf Coast Sands Aquifer. Its main office is in Riverside, Texas. It owns and operates 11 wells, 1 elevated storage tank, 2 stand pipes, 11 ground storage tanks and 5 pressure tanks.

Walker County is located in southeast Texas and is the 51st largest county in the state with a population of approximately 72,480. It lies approximately 70 miles north of Houston, 170 miles southeast of Dallas and approximately 120 miles west of the Louisiana state line. Cities within the County are Huntsville, the county seat, New Waverly and Riverside. County residents are served by two school districts, Huntsville ISD and New Waverly ISD. The County is home to Sam Houston State University and the Texas Department of Criminal Justice headquarters, as well as 7 of the Department’s primary units.

The economy in Walker County is based on education, state employment in the prison system, lumbering, agribusiness and tourism. The principal sources of agricultural income are livestock, hay, blueberries and timber.

MAP OF TEXAS SHOWING LOCATION OF RIVERSIDE SPECIAL UTILITY DISTRICT



POPULATION TRENDS

<u>Year</u>	<u>Walker County</u>
2018 Estimate	72,480
2010 Census	67,861
2000 Census	62,690

Source: U.S. Census Bureau

LEADING EMPLOYERS IN WALKER COUNTY

<u>Employer</u>	<u>Principal Line of Business</u>	<u>Approx. Employees</u>
Texas Department of Criminal Justice	State Prison	6,061
Sam Houston State University	Education	3,835
Huntsville Independent School District	Public Schools	980
Huntsville Memorial Hospital	Medical Services	477
Wal-Mart	Retail	317
Walker County	Government	380
City of Huntsville	Government	250
Gulf Coast Trade Center	Education	154
Bayes Achievement Center	Education	170
Kroger	Retail	165

Sources: City of Huntsville.

EMPLOYMENT STATISTICS

	<u>October 2019</u>		
	<u>United States</u>	<u>Texas</u>	<u>Walker County</u>
Civilian Labor Force	164,364,000	14,099,457	24,416
Total Employed	158,510,000	13,621,420	23,517
Total Unemployed	5,855,000	478,037	899
	<u>October 2018</u>		
	<u>United States</u>	<u>Texas</u>	<u>Walker County</u>
Civilian Labor Force	162,694,000	13,914,226	24,203
Total Employed	156,582,000	13,400,940	23,300
Total Unemployed	6,112,000	513,286	903

Source: Texas Workforce Commission Labor Market Review.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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

\$2,835,000
RIVERSIDE SPECIAL UTILITY DISTRICT
WATER SYSTEM REVENUE REFUNDING BONDS,
SERIES 2020

AS BOND COUNSEL FOR THE RIVERSIDE SPECIAL UTILITY DISTRICT (the “Issuer”) in connection with the issuance of its Water System Revenue Refunding Bonds, Series 2020 (the “Bonds”), we have examined into the legality and validity of the Bonds, which bear interest from the date and mature on the dates in accordance with the terms and conditions stated in the text of the Bonds. Terms used herein and not otherwise defined shall have the meaning given in the Resolution of the Issuer authorizing the issuance and sale of the Bonds (the “Resolution”).

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 Issuer, and other pertinent instruments relating to the authorization of the Bonds and the issuance and delivery of the Bonds, including one of the executed Bonds (Bond No. TR-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, and that the Bonds have been duly issued and delivered, all in accordance with law; and that, except as may be limited by laws applicable to the Issuer relating to governmental immunity, bankruptcy, reorganization, and other similar matters affecting creditors' rights, the Bonds constitute valid and legally binding special obligations of the Issuer secured by and payable from, together with other outstanding bonds, a first lien on and pledge of the “Net Revenues” of the Issuer’s Water System (as defined in the Resolution).

THE ISSUER has reserved the right, subject to the restrictions stated in the Resolution, to issue additional parity revenue bonds which, when issued and delivered, shall be payable from the Interest and Sinking Fund, and shall be payable from and secured by a first lien on and pledge of the Net Revenues of the Water System and entitled to the benefits of and secured by the Resolution in the same manner and to the same extent as, and be on a parity with, the Bonds

THE ISSUER HAS RESERVED THE RIGHT to amend the Resolution as provided therein, and under some (but not all) circumstances amendments thereto must



be approved by the Registered Owners of a majority in aggregate principal amount of the outstanding Bonds.

THE REGISTERED OWNERS of the Bonds shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation, or from any source whatsoever other than specified in the Resolution.

IT IS FURTHER OUR OPINION that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners thereof and (ii) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Bond and the use of the property financed or refinanced therewith, and the report of Public Finance Partners LLC verifying the sufficiency of the cash and securities deposited in the escrow fund held by the escrow agent to pay the redemption price of the refunded bonds on the redemption date . We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (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 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer 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 Bonds as includable in gross income for federal income tax purposes.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.



EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE HAVE ACTED AS BOND COUNSEL for the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds described above under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on information furnished by the Issuer with respect to the adequacy of the “Net Revenues”. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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.

Very truly yours,

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APPENDIX D

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED DECEMBER 31, 2018

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

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RIVERSIDE SPECIAL UTILITY DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018



Davis, Heinemann & Company, P.C.

Certified Public Accountants

1300 11th Street Suite 500

Huntsville, Texas 77340

(936) 291-3020

Riverside Special Utility District
Annual Financial Report
For The Year Ended December 31, 2018

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Riverside Special Utility District
Annual Financial Report
For The Year Ended December 31, 2018

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Introductory Section

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THE STATE OF TEXAS }

COUNTY OF WALKER }

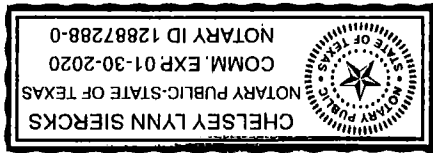
I, William J. Tuton, of the Riverside Special Utility District, hereby swear, or affirm, that the District named above has reviewed and approved at a meeting of the Board of Directors of the District on the 23 day of April, 2019, its audit report for the year ended December 31, 2018 and that copies of the audit report have been filed in the District office, located at 3662 Highway 19, Riverside, Texas 77367.

The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of all filing requirements within Section 49.194 of the Texas Water Code.

Date: April 23, 2019

[Signature]
Signature of District Official

Sworn to and subscribed to before me this 23 day of April, 2019



(Seal)

[Signature]
Signature of Notary

My Commission Expires on : 01-30-20
Notary Public in and for the State of Texas

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Financial Section

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DAVIS, HEINEMANN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

1300 11TH STREET, SUITE 500

P.O. BOX 6308

HUNTSVILLE, TEXAS 77342

PHONE (936) 291-3020

FAX (936) 291-9607

Independent Auditor's Report

To the Board of Directors
Riverside Special Utility District
P.O. Box 194
Riverside, Texas 77367

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Riverside Special Utility District ("the District") as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District'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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of Riverside Special Utility District as of December 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the Changes in the District's Net Pension Liability and Related Ratios, and the Schedule of District contributions identified as Required Supplementary Information 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Riverside Special Utility District's basic financial statements. The introductory section, budgetary comparison schedule and the *Texas Supplementary Information* (TSI) schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule and the TSI schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 budgetary comparison schedule and TSI schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2019 on our consideration of Riverside Special Utility District'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 solely 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

effectiveness of the District's 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 Riverside Special Utility District's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink that reads "Davis, Heinemann + Co." The signature is written in a cursive, flowing style.

Davis, Heinemann & Company, P.C.

Huntsville, Texas

April 12, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Riverside Special Utility District's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the year ended December 31, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$3,910,610 at December 31, 2018.
- The District's operating revenues were \$1,601,974 and operating expenses were \$1,319,389, resulting in operating income of \$282,585 for business-type activities for the year. After non-operating income and expenses, the change in net position for the year was an increase of \$403,722.

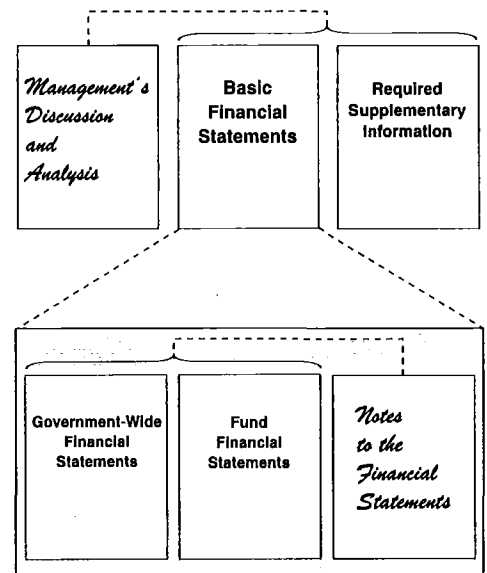
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the District's Annual Financial Report



Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in state legislation.

Summary ↔ Detail

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Directors establishes other funds to control and manage money for particular purposes or to show that it is properly using certain grants or other monies.

The District has the following kinds of funds:

- *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$3,910,610 at December 31, 2018. (See Table A-1). Accounts receivable decreased \$56.6 thousand due to a change in the meter reading dates, which had an effect on unbilled receivables. Capital assets increased \$435.4 thousand primarily due to new meter and line upgrades, partially offset by asset disposals. Accounts payable and accrued liabilities increased by \$66.4 thousand, primarily due to payables related to capital additions. Bonds and notes payable decreased by \$133.7 thousand due to principal payments on debt.

Table A-1
District's Net Position
(In thousands of dollars)

	Business-type Activities		Change 2018-2017
	2018	2017	
Current Assets:			
Cash	\$ 712.8	\$ 442.8	\$ 270.0
Accounts Receivable	153.2	209.8	(56.6)
Intergovernmental Receivable	22.0	-	22.0
Inventory, at Cost	83.0	72.6	10.4
Prepaid Items	15.2	12.2	3.0
Total Current Assets	<u>986.2</u>	<u>737.4</u>	<u>248.8</u>
Current Restricted Assets:			
Cash	<u>465.6</u>	<u>488.0</u>	<u>(22.4)</u>
Total Current Restricted Assets	<u>465.6</u>	<u>488.0</u>	<u>(22.4)</u>
Noncurrent Assets:			
Net Pension Asset	0.1	-	0.1
Capital Assets	10,439.3	10,003.9	435.4
Less Accumulated Depreciation	<u>(4,482.7)</u>	<u>(4,160.3)</u>	<u>(322.4)</u>
Total Noncurrent Assets	<u>5,956.7</u>	<u>5,843.6</u>	<u>113.1</u>
Total Assets	<u>7,408.5</u>	<u>7,069.0</u>	<u>339.5</u>
Deferred Outflow s of Resources:			
Deferred Outflow s - Pension Contributions	10.6	9.7	0.9
Deferred Outflow s - Other Pension	1.9	-	1.9
Total Deferred Outflow s of Resources	<u>12.5</u>	<u>9.7</u>	<u>2.8</u>
Current Liabilities:			
Accounts Payable and Accrued Liabilities	147.9	81.5	66.4
Customer Deposits	262.1	256.2	5.9
Bonds and Notes Payable – Current	<u>139.5</u>	<u>133.7</u>	<u>5.8</u>
Total Current Liabilities	<u>549.5</u>	<u>471.4</u>	<u>78.1</u>
Long-term Liabilities:			
Bonds and Notes Payable	2,947.1	3,086.6	(139.5)
Compensated Absences	13.8	13.8	-
Total Long-term Liabilities	<u>2,960.9</u>	<u>3,100.4</u>	<u>(139.5)</u>
Total Liabilities	<u>3,510.4</u>	<u>3,571.8</u>	<u>(61.4)</u>
Deferred Inflow s of Resources:			
Deferred Inflow s - Other Pension	<u>0.1</u>	<u>-</u>	<u>0.1</u>
Total Deferred Outflow s of Resources	<u>0.1</u>	<u>-</u>	<u>0.1</u>
Net Position:			
Invested in Capital Assets, Net of Debt	2,870.0	2,623.3	246.7
Board-designated for Capital Improvement	326.3	326.3	-
Unrestricted	<u>714.3</u>	<u>557.3</u>	<u>157.0</u>
Total Net Position	<u>\$ 3,910.6</u>	<u>\$ 3,506.9</u>	<u>\$ 403.7</u>

Changes in net position. The District's total revenues were \$1,884,040, and total expenses were \$1,480,318, which resulted in an increase of net position of \$403,722. (See Table A-2.) Charges for services increased by \$44.1 thousand, primarily due to a refund from TRA. Operating expenses increased slightly by \$0.9 thousand, primarily due to higher personnel expenses, offset by lower water purchases. Interest expense decreased due to a lower average balance outstanding during the year in 2018.

Table A-2
Changes in District's Net Position
(In thousands of dollars)

	Business-type		Change 2018-2017
	Activities		
	2018	2017	
Program Revenues:			
Charges for Services	\$ 1,585.8	\$ 1,541.7	\$ 44.1
Operating Grants	16.2	21.2	(5.0)
Total Revenues	<u>1,602.0</u>	<u>1,562.9</u>	<u>39.1</u>
Program Expenses:			
Water	1,319.4	1,318.5	0.9
Total Expenses	<u>1,319.4</u>	<u>1,318.5</u>	<u>0.9</u>
Operating Income	<u>282.6</u>	<u>244.4</u>	<u>38.2</u>
Non-Operating Revenues/(Expenses)			
Interest Revenue	2.7	2.3	0.4
Capital Grants	270.3	46.9	223.4
Gain/(Loss) on Disposal of Assets	9.0	(34.8)	43.8
Interest Expense	(160.9)	(163.7)	2.8
Non-Operating Revenues/(Expenses)	<u>121.1</u>	<u>(149.3)</u>	<u>270.4</u>
Change in Net Position	403.7	95.1	308.6
Beginning Net Position	3,506.9	3,411.8	95.1
Ending Net Position	<u>\$ 3,910.6</u>	<u>\$ 3,506.9</u>	<u>\$ 403.7</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District owned a broad range of capital assets, valued at \$10,439,343, including land, a water system, equipment, buildings, and vehicles. (See Table A-3.)

Table A-3
District's Capital Assets
(In thousands of dollars)

	Business-type Activities		Change 2018-2017
	2018	2017	
Land	\$ 215.9	\$ 215.9	\$ -
Construction in Progress	33.4	80.3	(46.9)
Buildings and Improvements	262.9	262.9	-
Distribution System and Wells	7,637.8	7,239.8	398.0
Field Equipment	2,232.4	2,150.7	81.7
Office Equipment	56.9	54.3	2.6
Totals at Historical Cost	<u>10,439.3</u>	<u>10,003.9</u>	<u>435.4</u>
Total Accumulated Depreciation	<u>(4,482.7)</u>	<u>(4,160.3)</u>	<u>(322.4)</u>
Net Capital Assets	<u>\$ 5,956.6</u>	<u>\$ 5,843.6</u>	<u>\$ 113.0</u>

Long Term Debt

At year-end the District had \$2,977,000 in bonds outstanding and \$109,653 in notes outstanding. (See Table A-4.) More detailed information about the District's debt is presented in the notes to the financial statements.

Table A-4
District's Long Term Obligations
(In thousands of dollars)

	Business-type Activities		Change 2018-2017
	2018	2017	
Bonds Payable	\$ 2,977.0	\$ 3,082.0	\$ (105.0)
Notes Payable	109.6	138.3	(28.7)
Compensated Absences	<u>13.8</u>	<u>13.8</u>	<u>-</u>
Total Long-Term Obligations	<u>\$ 3,100.4</u>	<u>\$ 3,234.1</u>	<u>\$ (133.7)</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Proprietary Fund Budgetary Highlights

Over the course of the year, the District did not revise its budget. Operating revenues were higher than anticipated during 2018 by \$10,704, primarily due to operating grants not budgeted. Actual operating expenditures were \$52,549 more than final budget amounts. The most significant negative variances resulted from equipment expense of \$21,162, depreciation expense of \$18,860 and grant expense of \$16,220.

Next Year's Budgetary Highlights

Service revenues are expected to increase by approximately \$64,000 in 2019 compared to the budget for 2018. The District also expects to receive a refund from Trinity River Authority for \$30,000. Expenses are expected to increase in 2019 by approximately \$33,000 compared to the 2018 budget, primarily due to increased utilities and repair and maintenance expenses in 2019, compared to what was budgeted in 2018.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's main office.

Basic Financial Statements

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RIVERSIDE SPECIAL UTILITY DISTRICT

STATEMENT OF NET POSITION

ENTERPRISE FUND

DECEMBER 31, 2018

	Enterprise Fund
	Water Fund
ASSETS:	
CURRENT ASSETS:	
Cash and Cash Equivalents	\$ 712,848
Receivables (net of allowances for uncollectibles):	153,216
Intergovernmental Receivables	22,038
Inventory, at Cost	82,973
Prepaid Items	15,146
Total Current Assets	<u>986,221</u>
CURRENT RESTRICTED ASSETS:	
Cash and Cash Equivalents	465,616
Total Current Restricted Assets	<u>465,616</u>
NONCURRENT ASSETS:	
Net Pension Asset	88
Capital Assets:	
Land	215,893
Construction in Progress	33,431
Other Capital Assets, Net of Depreciation	5,707,330
Total Noncurrent Assets	<u>5,956,742</u>
TOTAL ASSETS	<u><u>7,408,579</u></u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred Outflows - Pension Contributions	10,626
Deferred Outflows - Other Pension	1,842
Total Outflows of Resources	<u>\$ 12,468</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts Payable	\$ 76,877
Revenue Bonds Payable - Due Within One Year	139,527
Accrued Interest Payable	39,360
Other Accrued Liabilities	31,565
Customer Deposits	262,127
Total Current Liabilities	<u>549,456</u>
NONCURRENT LIABILITIES:	
Revenue Bonds Payable - Due in More Than One Year	2,947,126
Compensated Absences	13,803
Total Noncurrent Liabilities	<u>2,960,929</u>
TOTAL LIABILITIES	<u><u>3,510,385</u></u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred Inflows of Resources - Pension	52
Total Inflows of Resources	<u>52</u>
NET POSITION:	
Investment in Capital Assets, Net of Related Debt	2,870,001
Board-Designated for Capital Improvement	326,268
Unrestricted	714,341
Total Net Position	<u>\$ 3,910,610</u>

The accompanying notes are an integral part of this statement.

RIVERSIDE SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Enterprise Fund
	Water Fund
OPERATING REVENUES:	
Water Sales	\$ 1,470,649
Fees	58,926
Operating Grant Revenue	16,220
Other Income	56,179
Total Operating Revenues	<u>1,601,974</u>
OPERATING EXPENSES:	
Salaries and Wages	380,967
Payroll Taxes	30,146
Employee Benefits	80,111
Education and Training	13,822
Professional Services	29,935
Water Purchases	104,343
Utilities	76,369
Repair and Maintenance	89,070
Equipment Expense	51,162
Field and Plant Supplies	3,267
Uniforms	2,016
Dues, Licenses and Fees	17,653
Bank/Credit Card Fees	9,843
Office Expense and Postage	33,834
Insurance	10,967
Telephone	11,669
Bad Debt Expense	2,840
Grant Expense	16,220
Depreciation	355,155
Total Operating Expenses	<u>1,319,389</u>
Operating Income	<u>282,585</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest Revenue	2,702
Capital Grant Revenue	270,364
Gain/(Loss) on Disposition of Assets	9,000
Interest Expense	(160,929)
Total Non-operating Revenues (Expenses)	<u>121,137</u>
Income before Transfers	
Change in Net Position	403,722
Total Net Position - Beginning	3,506,888
Total Net Position - Ending	<u>\$ 3,910,610</u>

The accompanying notes are an integral part of this statement.

RIVERSIDE SPECIAL UTILITY DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

FOR THE YEAR ENDED DECEMBER 31, 2018

	Enterprise Fund <u>Water Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 1,593,549
Cash Received from Water Purchase Refunds	49,970
Cash Received from Operating Grants	14,960
Cash Payments to Employees for Services	(376,737)
Cash Payments to Other Suppliers for Goods and Services	(570,851)
Net Cash Provided (Used) by Operating Activities	<u>710,891</u>
Cash Flows from Capital and Related Financing Activities:	
Principal and Interest Paid	(295,455)
Cash Received from Capital Grants	252,066
Proceeds from Capital Asset Disposal	9,000
Acquisition or Construction of Capital Assets	(431,595)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(465,984)</u>
Cash Flows from Investing Activities:	
Interest and Dividends	2,702
Net Cash Provided (Used) for Investing Activities	<u>2,702</u>
Net Increase (Decrease) in Cash and Cash Equivalents	247,609
Cash and Cash Equivalents at Beginning of Year	930,855
Cash and Cash Equivalents at End of Year	<u>\$ 1,178,464</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 282,585
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	355,155
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	56,505
Decrease (Increase) in Intergovernmental Receivables	(3,740)
Decrease (Increase) in Inventories	(10,376)
Decrease (Increase) in Prepaid Items	(2,928)
Decrease (Increase) in Pension Asset	(88)
Decrease (Increase) in Pension Outflows of Resources	(2,745)
Increase (Decrease) in Accounts Payable	24,814
Increase (Decrease) in Compensated Absences	-
Increase (Decrease) in Accrued Expenses	5,778
Increase (Decrease) in Customer Memberships	5,879
Increase (Decrease) in Pension Inflows of Resources	52
Total Adjustments	<u>428,306</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 710,891</u>

The accompanying notes are an integral part of this statement.

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RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

A. Summary of Significant Accounting Policies

The combined financial statements of Riverside Special Utility District (the "District") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

Riverside Special Utility District provides potable drinking water to its customers in Walker and San Jacinto counties. The District was created July 1, 2015 by the enactment of the Texas Special District Local Laws Code Title 6, Subtitle C, Chapter 7211, Acts 2007, 80th Leg. Ch. 528 Section 1, effective June 16, 2007. Chapter 7211 provides for the transfer of assets, related liabilities, contractual rights and obligations, as well as legal claims against its predecessor entities, Riverside Water Supply Corporation and Superior Waterworks Special Utility District.

The District was originally created under the name Superior Waterworks Special Utility District on July 1, 2015. On February 1, 2016, the name was changed to Riverside Special Utility District.

The District is governed by the initial five appointed directors who have governance over all activities related to a Texas Water District. Elections to replace the appointed directors are held as the appointed terms expire, and they will serve three year staggered terms.

The District's basic financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- the exclusion of the organization would result in misleading or incomplete financial statements

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major enterprise funds:

Water Fund - This is the District's primary operating fund. It accounts for all financial resources of the District to provide water service to the residents within the District's boundaries.

b. Measurement Focus, Basis of Accounting

Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Inventories and Prepaid Items

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. **Receivable and Payable Balances**

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. **Restricted Assets**

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their payment, are classified as restricted assets on the balance sheet since their use is limited by applicable bond covenants.

f. **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to or deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

g. **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

h. **Deferred Outflows and Inflows of Resources**

In addition to assets, the statements of financial position (the proprietary Statement of Net Position) will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At December 31, 2018, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,177,954 and the bank balance was \$1,182,018. The District's cash deposits at December 31, 2018 and during the year ended December 31, 2018, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The District had no investments at December 31, 2018.

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Analysis of Specific Deposit and Investment Risks:

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Fair Value Measurement

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The District had no investments that require Fair Value Measurement at December 31, 2018.

D. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 215,893	\$ -	\$ -	\$ 215,893
Construction in progress	80,341	294,736	341,646	33,431
Total capital assets not being depreciated	<u>296,234</u>	<u>294,736</u>	<u>341,646</u>	<u>249,324</u>
Capital assets being depreciated:				
Buildings and improvements	262,933	-	-	262,933
Distribution Systems and Wells	7,239,821	397,996	-	7,637,817
Field Equipment	2,150,623	114,508	32,793	2,232,338
Office Equipment	54,318	2,613	-	56,931
Total capital assets being depreciated	<u>9,707,695</u>	<u>515,117</u>	<u>32,793</u>	<u>10,190,019</u>
Less accumulated depreciation for:				
Buildings and improvements	(220,133)	(5,261)	-	(225,394)
Distribution Systems and Wells	(2,985,811)	(281,572)	-	(3,267,383)
Field Equipment	(903,038)	(66,183)	(32,793)	(936,428)
Office Equipment	(51,345)	(2,139)	-	(53,484)
Total accumulated depreciation	<u>(4,160,327)</u>	<u>(355,155)</u>	<u>(32,793)</u>	<u>(4,482,689)</u>
Total capital assets being depreciated, net	<u>5,547,368</u>	<u>159,962</u>	<u>-</u>	<u>5,707,330</u>
Business-type activities capital assets, net	<u>\$ 5,843,602</u>	<u>\$ 454,698</u>	<u>\$ 341,646</u>	<u>\$ 5,956,654</u>

Depreciation was charged to functions as follows:

Public Ways and Facilities, Including	
Depreciation of General Infrastructure Assets	\$ 355,155
	<u>\$ 355,155</u>

E. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended December 31, 2018, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-type activities:					
Revenue bonds	\$ 3,082,000	\$ -	\$ 105,000	\$ 2,977,000	\$ 110,000
Notes	138,337	-	28,684	109,653	29,527
Compensated absences *	13,803	-	-	13,803	-
Total business-type activities	<u>\$ 3,234,140</u>	<u>\$ -</u>	<u>\$ 133,684</u>	<u>\$ 3,100,456</u>	<u>\$ 139,527</u>

* Other long-term liabilities

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Business-type	Enterprise

Long-term debt at December 31, 2018, consisted of the following:

	<u>Balance at 12/31/2018</u>
Texas Water Development Board Revenue Bond dated April 1, 2009, interest rates ranging from 3.992 - 5.265%, maturity date - April 1, 2039, original amount \$3,885,000.	\$ 2,267,000
Texas Water Development Board Revenue Bond dated April 1, 2009, interest rates ranging from 4.63 - 5.78%, maturity date - April 1, 2032, original amount \$965,000.	710,000
First National Bank Note dated June 29, 2017, interest rate - 2.75%, maturity date - July 10, 2022, original amount \$150,000.	<u>109,653</u>
Total Long-term Debt	<u>\$ 3,086,653</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2018, are as follows:

<u>Year Ending December 31,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 139,527	\$ 155,700	\$ 295,227
2020	140,349	149,430	289,779
2021	151,195	142,801	293,996
2022	143,582	135,774	279,356
2023	135,000	128,952	263,952
2024-2028	770,000	531,421	1,301,421
2029-2033	1,090,000	288,637	1,378,637
2034-2038	517,000	29,914	546,914
Totals	<u>\$ 3,086,653</u>	<u>\$ 1,562,629</u>	<u>\$ 4,649,282</u>

F. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of December 31, 2018, as follows:

<u>Year Ending December 31,</u>	
2019	\$ 2,553
2020	2,553
2021	633
Total Minimum Rentals	<u>\$ 5,739</u>
Rental Expenditures in 2018	<u>\$ 2,553</u>

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

H. Pension Plan

1. Plan Description

The District participates in the Texas County and District Retirement System (TCDRS), which is a statewide, agent multiple-employer, public employee retirement system. The District provides pensions for all its full-time employees through TCDRS. The TCDRS Board of Trustees is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of more than 738 participating employers. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768.

All full and part time non temporary employees of the District are required to participate in the TCDRS plan.

2. Benefits Provided

TCDRS provides retirement, disability, and survivor benefits. The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire with eight or more years of service at age 60 and above, with 30 years of service at any age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the District.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer financed monetary credits. The level of these monetary credits is adopted by the Board of Directors of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employers commitment to contribute. At retirement or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

3. Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	1
Active employees	9
Total covered employees	<u>10</u>

4. Contributions

The District has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the District based on covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed \$10,626 using the actuarially determined rate of 2.81% for fiscal year 2018.

Employees for the District were required to contribute 5.0% of their annual gross earnings during the fiscal year.

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

5. Actuarial Assumptions

The District's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Real rate of return	5.25% per year
Long-term investment return	8.00%, net of pension plan investment and administrative expenses.

Updated mortality assumptions were adopted in 2017. All actuarial assumptions that determined the total pension liability as of December 31, 2017 were based on the results of an actuarial experience study for the period January 1, 2013 - December 31, 2016, except where required to be different by GASB 68. In addition, mortality rates were based on the following mortality tables:

Depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the MP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market information shown below is provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2018 information for a 10-year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is based on a 30-year time horizon. The most recent was performed in 2017. The target allocation was adopted at the April 2018 TCDRS Board meeting. Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater LLC's 2018 capital market assumptions.

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Asset Class</u>	<u>Benchmark</u>	<u>Target Allocation</u>	<u>Geometric Real Rate of Return</u>
US Equities	Dow Jones	11.50%	4.55%
Private Equities	Cambridge Associates Global Equity	16.00%	7.55%
Global Equities	MSCI World Index	1.50%	4.85%
International Equities - Developed	MSCI World Ex USA Index	11.00%	4.55%
International Equities - Emerging	MSCI Emerging Markets Index	8.00%	5.55%
Investment -Grade Bonds	Bloomberg Barclays US Bond Index	3.00%	0.75%
Strategic Credit	FTSE High Yield Cash Pay Index	8.00%	4.12%
Direct Lending	S&P-LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity and 33% S&P Global REIT Indexes	2.00%	4.05%
Master Limited Partnerships	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc	18.00%	4.10%
Total		<u>100.00%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.10%. The discount rate was determined using an alternative method to determine the sufficiency of the fiduciary net position in all future years. The alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods. The employer is legally required to make the contribution specified in the funding policy. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable. Based on the above assumptions, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected levels of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, a discount rate of 8.10% has been used. 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.

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

6. Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TCDRS financial report.

Changes in Net Pension Liability/(Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balance at 12/31/2016	\$ -	\$ -	\$ -
Changes for the year			
Service cost	24,303	-	24,303
Interest	1,911	-	1,911
Effect of plan changes	-	-	-
Effect of economic/demographic gains and losses	1,517	-	1,517
Effect of assumptions changes or inputs	(57)	-	(57)
Contributions - employer	-	9,723	(9,723)
Contributions - employee	-	17,301	(17,301)
Net investment income	-	412	(412)
Benefit payments, including refunds of employee contributions	(1,439)	(1,439)	-
Administrative expense	-	(18)	18
Other changes	-	344	(344)
Net changes	26,235	26,323	(88)
Balance at 12/31/2017	\$ 26,235	\$ 26,323	\$ (88)

Sensitivity analysis

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

	1% Decrease in Discount Rate 7.10%	Discount Rate 8.10%	1% Increase in Discount Rate 9.10%
District's net pension liability	\$ 3,936	\$ (88)	\$ (3,449)

7. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2018, the District recognized pension expense of \$7,845.

At December 31, 2018, the District reported deferred outflows of resources and deferred 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	\$ 1,348	\$ -
Changes in actuarial assumptions	-	52
Difference between projected and actual investment earnings	494	-
Contributions subsequent to the measurement date	10,626	-
Total	\$ 12,468	\$ 52

\$10,626 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec. 31:		
2019	\$	286
2020	\$	286
2021	\$	286
2022	\$	286
2023	\$	162
Thereafter	\$	486

I. Health Care Coverage

During the year ended December 31, 2018, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$591 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable December 1, and terms of coverage and premium costs are included in the contractual provisions.

J. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at December 31, 2018.

K. Subsequent Events

The District does not have any subsequent events through April 12, 2019, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2018.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

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RIVERSIDE SPECIAL UTILITY DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S
NET PENSION LIABILITY AND RELATED RATIOS
TEXAS COUNTY DISTRICT RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

EXHIBIT B-1

	Measurement Year	
	2017	2016
Total pension liability:		
Service cost	\$ 24,303	\$ -
Interest	1,911	-
Effect of plan changes	-	-
Effect of economic/demographic gains and losses	1,517	-
Effect of assumptions changes or inputs	(57)	-
Benefit payments, including refunds of employee contributions	(1,439)	-
Net change in total pension liability	26,235	-
Total pension liability - beginning	-	-
Total pension liability - ending (a)	<u>\$ 26,235</u>	<u>\$ -</u>
Plan fiduciary net position:		
Contributions - employer	\$ 9,723	\$ -
Contributions - employee	17,301	-
Net investment income	412	-
Benefit payments, including refunds of employee contributions	(1,439)	-
Administrative expense	(18)	-
Other	344	-
Net change in plan fiduciary net position	26,323	-
Plan fiduciary net position - beginning	-	-
Plan fiduciary net position - ending (b)	<u>\$ 26,323</u>	<u>\$ -</u>
District's net pension liability/(asset) - ending (a) - (b)	<u>\$ (88)</u>	<u>\$ -</u>
Plan fiduciary net position as a percentage of the total pension liability	100.34%	-
Covered-employee payroll	\$ 346,028	\$ -
District's net pension liability as a percentage of covered-employee payroll	-0.03%	-

***Notes to Schedule:**

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

The District started the TCDRS retirement plan during the 2017 fiscal year. Therefore, data for measurement periods prior to January 1, 2017 does not apply to the District.

RIVERSIDE SPECIAL UTILITY DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEXAS COUNTY DISTRICT RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

EXHIBIT B-2

	Fiscal Year	
	2018	2017
Actuarially determined contribution	\$ 10,587	\$ 9,772
Contributions in relation to the actuarially determined contribution	(10,626)	(9,723)
Contribution deficiency (excess)	<u>\$ (39)</u>	<u>\$ 49</u>
Covered-employee payroll	\$ 376,738	\$ 347,755
Contributions as a percentage of covered-employee payroll	2.81%	2.81%

***Notes to Schedule**

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

The District started the TCDRS retirement plan during the 2017 fiscal year. Therefore, data for measurement periods prior to January 1, 2017 does not apply to the District.

RIVERSIDE SPECIAL UTILITY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

A. Pension

The District started the TCDRS retirement plan during the 2017 fiscal year. Therefore, data for measurement periods prior to January 1, 2017 does not apply to the District.

Valuation Date:

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

Methods and assumptions used to determine contributions rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	20.0 years (based on contribution rate calculated in 12/31/2017 valuation)
Asset Valuation Method	5-year Smoothed Value
Salary Increase	Varies by age and service. 4.9% average, including inflation
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Inflation	2.75%
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate Scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.

*Only changes that affect the benefit amount and that are effective 2017 and later are shown in the Notes to Schedule.

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Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

RIVERSIDE SPECIAL UTILITY DISTRICT

EXHIBIT B-3

WATER FUND
 ENTERPRISE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES:			
Water Sales	\$ 1,491,000	\$ 1,470,649	\$ (20,351)
Fees	50,300	58,926	8,626
Operating Grant Revenue	-	16,220	16,220
Other Income	49,970	56,179	6,209
Total Operating Revenues	<u>1,591,270</u>	<u>1,601,974</u>	<u>10,704</u>
OPERATING EXPENSES:			
Salaries and Wages	365,002	380,967	(15,965)
Payroll Taxes	30,000	30,146	(146)
Employee Benefits	81,566	80,111	1,455
Education and Training	15,000	13,822	1,178
Professional Services	40,000	29,935	10,065
Water Purchases	90,000	104,343	(14,343)
Utilities	84,110	76,369	7,741
Repair and Maintenance	76,000	89,070	(13,070)
Equipment Expense	30,000	51,162	(21,162)
Field and Plant Supplies	6,925	3,267	3,658
Uniforms	3,000	2,016	984
Dues, Licenses and Fees	17,600	17,653	(53)
Bank/Credit Card Fees	16,100	9,843	6,257
Office Expense and Postage	42,702	33,834	8,868
Insurance	17,000	10,967	6,033
Telephone	12,700	11,669	1,031
Bad Debt Expense	2,840	2,840	-
Grant Expense	-	16,220	(16,220)
Depreciation	336,295	355,155	(18,860)
Total Operating Expenses	<u>1,266,840</u>	<u>1,319,389</u>	<u>(52,549)</u>
Operating Income	<u>324,430</u>	<u>282,585</u>	<u>(41,845)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest Revenue	-	2,702	2,702
Capital Grant Revenue	-	270,364	270,364
Gain/(Loss) on Disposition of Assets	-	9,000	9,000
Interest Expense	(165,729)	(160,929)	4,800
Total Non-operating Revenues (Expenses)	<u>(165,729)</u>	<u>121,137</u>	<u>286,866</u>
Income before Transfers			
Change in Net Position	158,701	403,722	245,021
Total Net Position - Beginning	3,506,888	3,506,888	-
Total Net Position - Ending	<u>\$ 3,665,589</u>	<u>\$ 3,910,610</u>	<u>\$ 245,021</u>

RIVERSIDE SPECIAL UTILITY DISTRICT
SUPPLEMENTAL SCHEDULES
December 31, 2018

- (TSI - 1) Services and Rates
- (TSI - 2) Water Fund - Schedule of Operating Expenses
- (TSI - 3) Temporary Investments None at December 31, 2018.
- (TSI - 4) Taxes Levied and Receivable Not applicable. The District has never levied taxes.
- (TSI - 5) Long-Term Debt Service Requirements by Year
- (TSI - 6) Changes in Long-Term Bonded Debt
- (TSI - 7) Comparative Schedule of Revenues and Expenses – Enterprise Fund
- (TSI - 8) Board Members, Key Personnel, and Consultants

RIVERSIDE SPECIAL UTILITY DISTRICT

(TSI - 1) SERVICES AND RATES

For the Year Ended December 31, 2018

1. Services Provided by the District:

<input checked="" type="checkbox"/>	Retail Water	<input type="checkbox"/>	Wholesale Water	<input type="checkbox"/>	Drainage
<input type="checkbox"/>	Retail Sewer	<input type="checkbox"/>	Wholesale Sewer	<input type="checkbox"/>	Irrigation
<input type="checkbox"/>	Parks/Recreation	<input type="checkbox"/>	Fire Protection	<input type="checkbox"/>	Security
<input type="checkbox"/>	Solid Waste/Garbage	<input type="checkbox"/>	Flood Control	<input type="checkbox"/>	Roads
<input type="checkbox"/>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<input type="checkbox"/>	Other (Specify) _____				

2. Retail Water Rates

a. Retail rates for 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons Over Minimum Use	Usage Levels
Water:	\$ 33.00	-	Y	\$ 5.65	0 to 2,000
				\$ 6.65	2,001 to 4,000
Wastewater:	NONE			\$ 7.15	4,001 to remainder
Surcharge:	NONE				

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water: \$ 100.50

3. Retail Service Providers: Number of retail water and/or wastewater* connections within the District as of the fiscal year end. Provide actual numbers and single family equivalents (SFEC) as noted:

Meter Size	Total Connections	Active Connections	SFEC Factor	Active ESFCs
Unmetered	-	-	X 1.0	-
< 5/8"	2,153	2,001	X 1.0	2,001
1"	14	14	X 2.5	35
1.5"	-	-	X 5.0	-
2"	11	11	X 8.0	88
3"	-	-	X 15.0	-
4"	1	1	X 25.0	25
Compound Meter-High	5	4		
Total Water	2,184	2,031		2,149
Total Wastewater	N/A	N/A		-

*Number of connections relates to water service, if provided. Otherwise, the number of wastewater connects should be provided.

RIVERSIDE SPECIAL UTILITY DISTRICT

(TSI - 1) SERVICES AND RATES

For the Year Ended December 31, 2018

4. Total water consumption (in thousands) during the year ended December 31, 2018:

Gallons pumped into system	<u>174,138,400</u>	<u>Water Accountability Ratio:</u>
Gallons billed to customers	<u>108,567,214</u>	(gallons billed/gallons pumped)
		<u>62.34%</u>

5. Standby Fees

Does the District assess standby fees? Yes _____ No X
For the most recent full fiscal year, FYE 2018

Debt Service: Total levy \$ _____
Total Collected \$ _____
Percentage Collected _____%

Operation and Maintenance: Total levy \$ _____
Total Collected \$ _____
Percentage Collected _____%

Have standby fees been levied in accordance with Water Code Section 49.231, thereby constituting a lien on property? Yes _____ No X

6. Anticipated sources of funds to be used for debt service payment in the District's following fiscal year:

a. Debt Service Tax Receipts	\$ _____
b. Surplus Construction Funds	_____
c. Water and/or Wastewater Revenue	<u>\$ 295,227</u>
d. Standby Fees	_____
e. Debt Service Fund Balance To Be Used	_____
f. Interest Revenues	_____
g. Other (Describe)	_____
TOTAL ANTICIPATED FUNDS TO BE USED	<u>\$ 295,227</u>

RIVERSIDE SPECIAL UTILITY DISTRICT

(TSI - 1) SERVICES AND RATES

(continued)

For the Year Ended December 31, 2018

7. Location of District:

County (Counties) in which District is located. Walker County and San Jacinto County, Texas

Is the District located entirely with one county? Yes _____ No X

Is the District located within a City? Entirely _____ Partly X Not at all _____

City (Cities) in which the District is located. Riverside, Texas

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely _____ Partly X Not at all _____

ETJ's in which the District is located. Riverside, Huntsville

Is the general membership of the Board appointed by an office outside the District?

Yes _____ No X

If yes, by whom? _____

RIVERSIDE SPECIAL UTILITY DISTRICT
(TSI - 2) SCHEDULE OF OPERATING EXPENSES
WATER FUND
For the Year Ended December 31, 2018

Personnel Expenses	\$	491,224
Professional Fees:		
Accounting and Auditing		20,000
Legal		1,592
Contracted Services		
Drug Testing		750
Computer Services		3,600
Meter Reading		993
Other		3,000
Purchased Services for Resale:		
Bulk Water Purchases		104,343
Utilities		76,369
Repairs and Maintenance		89,070
Administrative Expenses:		
Office Supplies and Postage		24,121
Insurance and Bonds		10,967
Telephone		11,669
Other Administrative Expenses		9,843
Other Expenditures:		
Fuel		21,838
Materials and Supplies		3,354
Equipment Expense		29,324
Dues, Licenses and Fees		17,653
Travel and Education		13,822
Water Testing		-
Other		30,702
Depreciation Expense		355,155
TOTAL OPERATING EXPENSES	\$	<u>1,319,389</u>

Number of persons employed by the District: 9 Full-Time 0 Part-Time

RIVERSIDE SPECIAL UTILITY DISTRICT
 (TSI - 3) TEMPORARY INVESTMENTS
 For the Year Ended December 31, 2018

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
<u>Enterprise Fund</u>			
No Investments at December 31, 2018			\$ -
Total			<u>\$ -</u>

RIVERSDIE SPECIAL UTILITY DISTRICT
(TSI - 5) LONG-TERM DEBT SERVICE REQUIREMENTS BY YEAR
December 31, 2018

TWDB - L090044

<u>Due During Year Ended December 31</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2019	\$ 75,000	\$ 114,390	\$ 189,390
2020	75,000	110,790	185,790
2021	80,000	107,015	187,015
2022	85,000	102,957	187,957
2023	90,000	98,613	188,613
2024	90,000	94,113	184,113
2025	100,000	89,335	189,335
2026	100,000	84,272	184,272
2027	110,000	78,925	188,925
2028	115,000	73,133	188,133
2029	125,000	66,909	191,909
2030	130,000	60,296	190,296
2031	135,000	53,425	188,425
2032	215,000	44,349	259,349
2033	225,000	32,895	257,895
2034	235,000	20,875	255,875
2035	250,000	8,203	258,203
2036	32,000	836	32,836
	<u>\$ 2,267,000</u>	<u>\$ 1,241,331</u>	<u>\$ 3,508,331</u>

RIVERSIDE SPECIAL UTILITY DISTRICT
 (TSI - 5) LONG-TERM DEBT SERVICE REQUIREMENTS BY YEAR
 (Continued)
 December 31, 2018

TWDB - L090045

Due During Year Ended <u>December 31</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2019	\$ 35,000	\$ 38,665	\$ 73,665
2020	35,000	36,817	71,817
2021	40,000	34,809	74,809
2022	40,000	32,646	72,646
2023	45,000	30,339	75,339
2024	45,000	27,884	72,884
2025	50,000	25,269	75,269
2026	50,000	22,491	72,491
2027	55,000	19,548	74,548
2028	55,000	16,451	71,451
2029	60,000	13,199	73,199
2030	65,000	9,633	74,633
2031	65,000	5,908	70,908
2032	70,000	2,023	72,023
2033	-	-	-
2034	-	-	-
2035	-	-	-
2036	-	-	-
	<u>\$ 710,000</u>	<u>\$ 315,682</u>	<u>\$ 1,025,682</u>

RIVERSIDE SPECIAL UTILITY DISTRICT
(TSI - 5) LONG-TERM DEBT SERVICE REQUIREMENTS BY YEAR
(Continued)
December 31, 2018

FNB - 170804

Due During Year Ended <u>December 31</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2019	\$ 29,527	\$ 2,645	\$ 32,172
2020	30,349	1,823	32,172
2021	31,195	977	32,172
2022	18,582	171	18,753
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
2028	-	-	-
2029	-	-	-
2030	-	-	-
2031	-	-	-
2032	-	-	-
2033	-	-	-
2034	-	-	-
2035	-	-	-
2036	-	-	-
	<u>\$ 109,653</u>	<u>\$ 5,616</u>	<u>\$ 115,269</u>

RIVERSIDE SPECIAL UTILITY DISTRICT
(TSI - 5) LONG-TERM DEBT SERVICE REQUIREMENTS BY YEAR
(Continued)
December 31, 2018

Annual Requirement for All Series

Due During Year Ended <u>December 31</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2019	\$ 139,527	\$ 155,700	\$ 295,227
2020	140,349	149,430	289,779
2021	151,195	142,801	293,996
2022	143,582	135,774	279,356
2023	135,000	128,952	263,952
2024	135,000	121,997	256,997
2025	150,000	114,604	264,604
2026	150,000	106,763	256,763
2027	165,000	98,473	263,473
2028	170,000	89,584	259,584
2029	185,000	80,108	265,108
2030	195,000	69,929	264,929
2031	200,000	59,333	259,333
2032	285,000	46,372	331,372
2033	225,000	32,895	257,895
2034	235,000	20,875	255,875
2035	250,000	8,203	258,203
2036	32,000	836	32,836
	<u>\$ 3,086,653</u>	<u>\$ 1,562,629</u>	<u>\$ 4,649,282</u>

RIVERSIDE SPECIAL UTILITY DISTRICT
 (TSI - 6) CHANGE IN LONG-TERM BONDED DEBT
 For the Year Ended December 31, 2018

	<u>L090044</u>	<u>L090045</u>	<u>Totals</u>
Interest Rate	3.99% - 5.27%	4.63% - 5.78%	
Dates Interest Payable	4/1; 10/1	4/1; 10/1	
Maturity Dates	4/1/2039	4/1/2032	
Debt Outstanding at Beginning of Year	\$ 2,337,000	\$ 745,000	\$ 3,082,000
New Debt During the Year	-	-	-
Retirements of Principal	<u>70,000</u>	<u>35,000</u>	<u>105,000</u>
Debt Outstanding at End of Year	<u>\$ 2,267,000</u>	<u>\$ 710,000</u>	<u>\$ 2,977,000</u>
Interest Paid	\$ 117,804	\$ 40,478	\$ 158,282
Paying Agent's Name and City:			
L090044	<u>Wells Fargo Minneapolis, MN</u>		
L090045	<u>Wells Fargo Minneapolis, MN</u>		
Bond Authority:	<u>Revenue Bonds</u>		
Amount Authorized by Voters	<u>N/A - Issued While a Non-Profit</u>		
Amount Issued	<u>\$ 385,000</u>	<u>\$ 965,000</u>	
Remaining to Be Issued	<u>\$ -</u>	<u>\$ -</u>	
Debt Service cash and temporary investments balances as of December 31, 2018:	<u>\$ 465,616</u>		
Average annual debt service payment (principal and interest) for remaining term of all debt	<u>\$ 258,293</u>		

RIVERSIDE SPECIAL UTILITY DISTRICT

(TSI - 7) COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES – ENTERPRISE FUND

For the Year Ended December 31, 2018

	AMOUNT				
	2018	2017	2016	2015 ⁽¹⁾	2014
OPERATING REVENUES					
Water Service	\$ 1,470,649	\$ 1,479,883	\$ 1,371,231	\$ 711,420	\$ -
Fees	58,926	61,046	61,611	29,538	-
Operating Grant	16,220	21,180	-	-	-
Other Income	56,179	790	1,338	5,060	-
TOTAL OPERATING REVENUES	1,601,974	1,562,899	1,434,180	746,018	-
OPERATING EXPENSES					
Personnel Expenses	491,224	438,441	416,468	237,788	-
Contract Services	8,343	19,736	15,679	2,496	-
Professional Services	21,592	24,630	32,749	9,704	-
Purchased Water for Resale	104,343	162,013	95,734	55,510	-
Utilities	76,369	68,433	63,740	44,685	-
Repairs and Maintenance	89,070	83,548	154,239	42,121	-
Office Expense and Postage	24,121	19,701	37,280	15,170	-
Insurance	10,967	10,636	10,724	7,027	-
Telephone	11,669	11,118	13,368	6,266	-
Fuel	21,838	18,619	33,147	14,822	-
Materials and Supplies	3,354	4,184	9,073	5,522	-
Dues Licenses and Fees	17,653	21,664	16,253	7,434	-
Travel and Education	13,822	10,409	13,425	6,716	-
Other Expense	69,869	63,674	20,139	16,243	-
Depreciation	355,155	361,742	336,295	155,656	-
TOTAL OPERATING EXPENSES	1,319,389	1,318,548	1,268,313	627,160	-
OPERATING INCOME (LOSS)	282,585	244,351	165,867	118,858	-
NON-OPERATING REVENUE (EXPENSES)					
Interest Income	2,702	2,301	2,290	2,114	-
Interest Expense	(160,929)	(163,667)	(193,746)	(113,631)	-
Contributions	-	-	-	163,815	-
Capital Grant	270,364	46,910	-	-	-
Gain/(Loss) on Disposal of Assets	9,000	(34,808)	-	-	-
Bond Issuance Costs	-	-	-	(355,402)	-
TOTAL NON-OPERATING REVENUE (EXPENSES)	121,137	(149,264)	(191,456)	(303,104)	-
NET INCOME (LOSS)	\$ 403,722	\$ 95,087	\$ (25,589)	\$ (184,246)	\$ -

(1) 6 months of data only

PERCENT OF FUND TOTAL REVENUES

2018	2017	2016	2015 ⁽¹⁾	2014
91.8%	94.6%	95.6%	95.3%	-
3.7%	3.9%	4.3%	4.0%	-
1.0%	1.4%	0.0%	0.0%	-
3.5%	0.1%	0.1%	0.7%	-
100.0%	100.0%	100.0%	100.0%	-
30.7%	28.0%	29.0%	31.9%	-
0.5%	1.3%	1.1%	0.3%	-
1.3%	1.6%	2.3%	1.3%	-
6.5%	10.4%	6.7%	7.4%	-
4.8%	4.4%	4.4%	6.0%	-
5.6%	5.3%	10.8%	5.6%	-
1.5%	1.3%	2.6%	2.0%	-
0.7%	0.7%	0.7%	0.9%	-
0.7%	0.7%	0.9%	0.8%	-
1.4%	1.2%	2.3%	2.0%	-
0.2%	0.3%	0.6%	0.7%	-
1.1%	1.4%	1.1%	1.0%	-
0.9%	0.7%	0.9%	0.9%	-
4.4%	4.1%	1.4%	2.2%	-
22.2%	23.0%	23.4%	20.9%	-
82.5%	84.4%	88.2%	83.9%	-
17.5%	15.6%	11.8%	16.1%	-
0.2%	0.1%	0.2%	0.3%	-
-10.0%	-10.4%	-13.5%	-15.2%	-
0.0%	0.0%	0.0%	22.0%	-
16.9%	3.0%	0.0%	0.0%	-
0.6%	-2.2%	0.0%	0.0%	-
0.0%	0.0%	0.0%	-47.6%	-
7.7%	-9.5%	-13.3%	-40.5%	-
25.2%	6.1%	-1.5%	-24.4%	-

RIVERSIDE SPECIAL UTILITY DISTRICT
 (TSI - 8) BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
 For the Year Ended December 31, 2018

Mailing Address: Riverside Special Utility District
 P.O. Box 194
 Riverside, Texas 77367
 Bus. Telephone Number: 936-594-5793

Submission Date of the Most Recent District Registration Form: 6/12/2018

Limit on Fees of Office that a Director may receive during a fiscal year: \$0

<u>BOARD MEMBERS</u>	<u>Term of Office or Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>	<u>Resident of District?</u>
Bill Tutor	2018-2021	None	President	Yes
Philip Hons	2016-2019	None	Vice President	Yes
Jess Paddy Jr.	2017-2019	None	Sec/Treas	Yes
Jason Thompson	2018-2021	None	Director	Yes
Charles Turney	2017-2020	None	Director	Yes

No Director is disqualified from serving on this board under the Texas Water Code.

KEY ADMINISTRATIVE PERSONNEL

Robert Nettles	2015	\$82,500	General Manager	No
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CONSULTANTS

Davis, Heinemann & Company, P.C.	2013	\$8,000	Auditor	No
Karon Murff, CPA	2012	\$12,000	Financial Consultant	No
Carleton Law Firm	2013	\$699	Attorney	No
Moak & Moak	2018	\$480	Attorney	No
Kronberger Law Firm	2018	\$413	Attorney	No



DAVIS, HEINEMANN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

1300 11TH STREET, SUITE 500

P.O. BOX 6308

HUNTSVILLE, TEXAS 77342

PHONE (936) 291-3020

FAX (936) 291-9607

Independent Auditor's Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards

Board of Directors
Riverside Special Utility District
P.O. Box 194
Riverside, Texas 77367

Members of the Board of Directors:

We have audited, in accordance with the 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, the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Riverside Special Utility District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Riverside Special Utility District's basic financial statements, and have issued our report thereon dated April 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Riverside Special Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Riverside Special Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Riverside Special Utility District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Riverside Special Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in cursive script that reads "Davis, Heinemann + Co.".

Davis, Heinemann & Company, P.C.

Huntsville, Texas

April 12, 2019

RIVERSIDE SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
One or more material weaknesses identified?	<u> </u> Yes	<u> X </u> No	
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Reported	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	

B. Financial Statement Findings

NONE

RIVERSIDE SPECIAL UTILITY DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None reported.		

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APPENDIX E

SELECTED PROVISIONS OF THE RESOLUTION

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SELECTED PROVISIONS OF THE RESOLUTION

"Additional Bonds" shall mean the additional parity revenue bonds, notes, or other obligations which the Issuer reserves the right to issue and deliver in the future, as provided by this Resolution. Additional Bonds does not include Special Project Bonds.

"Board of Directors" or "Board" shall mean the Board of Directors of the Issuer.

"Bond Counsel" shall mean McCall, Parkhurst & Horton L.L.P., Dallas, Texas, or such other attorney or firm of attorneys experienced in matters relating to municipal finance law and selected by the Issuer.

"Bond Resolution" or "Resolution" shall mean this Resolution authorizing the Series 2020 Bonds.

"Credit Facility" shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on any Parity Obligations, provided that at the time of acquisition of a Credit Facility a Rating Agency would rate the Parity Obligations fully insured or guaranteed by the issuer of the Credit Facility based on the rating of the issuer of the Credit Facility in one of its four highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency would rate the Parity Obligations in one of its four highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Obligations and the interest thereon.

"Credit Facility Payment" means any payment the Issuer is obligated to make from amounts deposited in the Reserve Fund with respect to a Credit Facility.

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

"DTC" shall mean The Depository Trust Company of New York, New York, New York, or any successor securities depository.

"DTC Participant" shall mean securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

"Depository" shall mean the bank or banks which the Issuer selects (whether one or more), in accordance with law, as its depository.

"Fiscal Year" shall mean the twelve-month period commencing on the first day of January of any year and ending on the last day of December of such calendar year, or such other period commencing on the date designated by the Issuer and ending one year later.

"Gross Revenues" shall mean all of the revenues and income of every nature received or derived by the Issuer from the operation and/or ownership of the Water System (exclusive of restricted gifts, grants, requests, donations and contributions), including the interest income from the investment or deposit of money in any Fund created by this Resolution, but excluding any revenue derived from a facility or facilities financed by the issuance of Special Project Bonds to the extent permitted herein.

"Issuer" shall mean the Riverside Special Utility District.

"Issuance Date" shall mean the date of delivery of the Series 2020 Bonds to the Purchaser.

"Maximum Annual Debt Service" shall mean the highest amount of Debt Service due on all Outstanding Parity Obligations in any Fiscal Year. Capitalized interest payments provided from bond proceeds, accrued interest on any Additional Bonds, and interest earnings thereon shall be excluded in making such computation.

"Net Revenues" means all Gross Revenues less Operation and Maintenance Expenses.

"Operation and Maintenance Expenses" shall mean the Issuer's reasonable and necessary current expenses for operation, maintenance, repairs and ordinary restoration of the Water System including, without limiting the generality of the foregoing, administrative expenses, payments for the purchase of water, lease payments, rental payments, insurance premiums, allowed claims and judgments by courts of competent jurisdiction for losses to others incurred in the operation of the Water System, legal and engineering expenses, payments to pension, retirement, health and hospitalization funds, any taxes, governmental charges, and any other expenses required to be paid by the Issuer, all to the extent properly and directly attributable to the operation of the Water System; provided however, such shall not include any provision for (i) depreciation, amortization or similar charges, (ii) costs or expenses for new construction, (iii) other expenditures which, under generally accepted accounting principles, should be treated as capital expenditures, or (iv) deposits or transfers of monies to the credit of any Fund established for the payment and security of the Parity Obligations.

"Outstanding", when used in this Resolution with respect to Parity Obligations, including the Series 2020 Bonds, means, as of the date of determination, all Parity Obligations theretofore sold, issued and delivered by the Issuer, except:

(1) those Parity Obligations canceled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;

(2) those Parity Obligations paid or deemed to be paid in accordance with the provisions under the subheading “Defeasance of Parity Obligations” below or similar provisions of any resolution authorizing the issuance of Parity Obligations; or

(3) those Parity Obligations that have been mutilated, destroyed, lost, or stolen and replacement obligations have been registered and delivered in lieu thereof.

"Parity Obligations" shall mean, collectively, the Series 2020 Bonds and any Additional Bonds.

"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 maturity principal installment or redemption requirements applicable thereto) all Outstanding Parity Obligations, if any, becoming due in such Fiscal Year.

"Required Reserve" shall mean an amount equal to Maximum Annual Debt Service; provided, however, that if the amount of the Net Revenues for the three most recent Fiscal Years for which an executed audit has been received by the Board is equal to or greater than 2.00 times the amount of the Maximum Annual Debt Service, the amount of the Required Reserve shall be \$0.00; provided, however, that any Credit Facility deposited to the credit of the Reserve Fund shall remain on deposit for the life of the Parity Obligations secured by said Credit Facility.

"Reserve Fund" shall mean the reserve fund established pursuant to the subheading “Creation of Funds” below for the Series 2020 Bonds.

"Special Project Bonds" shall mean bonds issued to acquire or construct or acquire any facility other than the Water System existing at the time Special Project Bonds are issued.

"Water System" shall mean the Issuer's entire waterworks system, together with future improvements, extensions, enlargements and additions thereto, and replacements thereof; provided that only such equipment of the Issuer as is directly related to water supply shall be included as part of the Water System, and provided further that such term shall exclude any facilities financed by the issuance of Special Project Bonds.

PLEDGE . . . (a) It is hereby determined, declared, and resolved that all of the Parity Obligations, including the Series 2020 Bonds, are and shall be secured and payable equally and ratably on a parity basis.

(b) The Parity Obligations, and the interest thereon, are and shall be payable from and secured by a first lien on and pledge of the Net Revenues, and said Net Revenues are further pledged to the establishment and maintenance of the Interest and Sinking Fund and any Reserve Fund hereinafter created.

(c) The Parity Obligations and the interest thereon constitute and shall be special obligations of the Issuer payable solely from the Net Revenues, and the owner or owners thereof shall never have the right to demand payment thereof out of funds raised or to be raised from taxes.

(d) Chapter 1208, Government Code, applies to the issuance of the Series 2020 Bonds and the pledge of the Net Revenues granted by the Issuer under this Section, and is therefore valid, effective, and perfected. Should Texas law be amended at any time while the Series 2020 Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Net Revenues granted by the Issuer under this Section is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the holders of the Series 2020 Bonds a security interest in said pledge, the Issuer 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 and Commerce Code and enable a filing of a security interest in said pledge to occur.

CREATION OF FUNDS . . . All Gross Revenues shall be accounted for separate and apart from all other funds of the Issuer. The following special Funds are hereby created and established and shall be maintained, so long as any of the Parity Obligations are Outstanding and unpaid:

(a) Riverside Special Utility District Water System Revenue Fund, hereinafter called the "Revenue Fund", has been established and shall be maintained in a Depository.

(b) Riverside Special Utility District Water System Interest and Sinking Fund, hereinafter called the "Interest and Sinking Fund", has been established and shall be maintained in a Depository.

REVENUE FUND . . . All Net Revenues shall be deposited from time to time as received into the Revenue Fund. All Net Revenues shall be credited to the Revenue Fund immediately upon receipt. All Net Revenues deposited into the Revenue Fund shall promptly be transferred to the following funds in the following order of priority:

- FIRST: To the payment of the amounts required to be deposited in the Interest and Sinking Fund for the payment of Debt Service on the Parity Obligations as the same becomes due and payable;
- SECOND: To the payment of the amounts required to be deposited in a Reserve Fund pursuant to this Resolution or any resolution relating to the issuance of Parity Obligations;
- THIRD: To the payment of amounts required to be deposited in any other fund or account required by any resolution authorizing the issuance of Parity Obligations; and
- FOURTH: To any fund or account held at any place or places, or to any payee, required by any other resolution of the Board which authorized the issuance of obligations or the creation of debt of the Issuer having a lien on the Net

Revenues subordinate to the lien created herein on behalf of the Parity Obligations.

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

INTEREST AND SINKING FUND . . . (a) On the Issuance Date, out of proceeds of any Parity Obligations, the Issuer shall cause to be deposited to the credit of the Interest and Sinking Fund, all accrued interest, if any, on the Parity Obligations to be used to pay part of the interest coming due on the Parity Obligations.

(b) There shall be deposited into the Interest and Sinking Fund, from Net Revenues deposited in the Revenue Fund, the following:

(1) on or before the 25th day of the month following delivery of any of the Parity Obligations, and on or before the 25th day of each month thereafter, there shall be deposited into the Interest and Sinking Fund such amounts, in approximately equal monthly installments, as will be sufficient, together with any other funds then on hand therein and available for such purpose, to pay the interest scheduled to come due on the Parity Obligations on the next interest payment date.

(2) on or before the 25th day of the month following delivery of any of the Parity Obligations, and on or before the 25th day of each month thereafter, there shall be deposited into the Interest and Sinking Fund such amounts, in approximately equal monthly installments, as will be sufficient to pay the principal of the Parity Obligations scheduled to mature on the next succeeding maturity date.

(3) on or before the fifth day prior to any optional redemption date set by the Issuer for any Parity Obligations, there shall be deposited into the Interest and Sinking 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.

The Interest and Sinking Fund shall be used solely to pay the principal of and interest on the Parity Obligations as provided above.

RESERVE FUNDS . . . (a) There is hereby created and ordered to be established at a depository of the Issuer, for the benefit of the Series 2020 Bonds, the "Riverside Special Utility District Water System Revenue Refunding Bonds, Series 2020 Reserve Fund" (hereinafter called the "Reserve Fund"). As directed by the Pricing Officer in the Pricing Certificate, the Required Reserve amount for the Series 2020 Bonds may be funded by the deposit to the Reserve Fund of: (i) proceeds of Series 2020 Bonds on the Issuance Date and in the amount necessary to fully fund the Required Reserve as of said Issuance Date, (ii) a Credit Facility in the amount necessary to fully fund the Required Reserve as of the Issuance Date, or (iii) monthly transfers of cash in 1/36th of the amount necessary to fully fund the Required Reserve as of the Issuance Date, beginning on the 25th day of the month following the month of in which the Series 2020 Bonds are issued. If so funded with

a Credit Facility or cash (whether at the time of delivery of the Series 2020 Bonds or by monthly deposits over time), a cash amount (or investments of cash) or the face value of a Credit Facility shall at least equal the Required Reserve. All funds, investments and Credit Facilities on deposit and credited to the Reserve Fund shall be used solely for (i) the payment of the principal of and interest on the Series 2020 Bonds, when and to the extent other funds available for such purposes are insufficient, (ii) to make Credit Facility Payments and (iii) to the extent not required to maintain the Required Reserve, to pay, or provide for the payment of, the final principal amount of the Series 2020 Bonds so that the Series 2020 Bonds are no longer deemed to be "Outstanding" as such term is defined herein, or (iv) as provided in clause (d) below, any excess amount in the Reserve Fund may be transferred to the Revenue Fund and allocated in accordance with the subheading "Revenue Fund" above. Subject to subsection (e) of this Section, the Issuer may at any time substitute a qualifying Credit Facility for all or part of the cash or other Credit Facility on deposit in, or held for the benefit of, the Reserve Fund.

(b) The Required Reserve may be calculated at the end of each Fiscal Year. To the extent that the amount on deposit in the Reserve Fund is at any time of calculation less than the Required Reserve, the Issuer shall deposit to the Reserve Fund the Required Reserve as provided in this Section.

(c) When and for so long as the cash and investments in the Reserve Fund and/or coverage afforded by a Credit Facility held for the account of the Reserve Fund equal the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve, the Issuer covenants and agrees that the Issuer shall cure the deficiency in the Reserve Fund by making deposits to the Reserve Fund from the Net Revenues in accordance with the subheading "Revenue Fund" above by monthly deposits in amounts equal to not less than 1/36th of the Required Reserve with any such deficiency payments being made on or before the 25th day of each month until the Required Reserve has been fully restored. Reimbursements to the provider of any Credit Facility deposited to the Reserve Fund shall constitute the making up of a deficiency to the extent that such reimbursements result in the reinstatement, in whole or in part, as the case may be, of the face value of the Credit Facility. The Issuer further covenants and agrees that, subject only to the prior deposits to be made to the Interest and Sinking Fund, the Net Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve, and any reserve fund that may be established for the benefit of any issue or series of Additional Obligations and to cure any deficiency in such amounts as required by the terms of this Resolution and any other resolution pertaining to the issuance of Additional Obligations.

(d) Earnings and income derived from the investment of amounts held for the credit of the Reserve Fund shall be retained in the Reserve Fund until the Reserve Fund contains the Required Reserve. During such time as the Reserve Fund contains the Required Reserve, the Issuer may, at its option, withdraw all surplus funds in the Reserve Fund and deposit such surplus in the Revenue Fund.

(e) Notwithstanding any other provision of this Resolution, if a Credit Facility is utilized in connection with the Series 2020 Bonds after the Issuance Date, the Board must specifically

approve any such Credit Facility and any such Credit Facility must be submitted to the Attorney General (if submission is then required by law) for approval.

(f) In the event that the Issuer deposits in the Reserve Fund a Credit Facility and there is a draw upon the Credit Facility, the Issuer shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is used, from Net Revenues, however, such reimbursement from Net Revenues shall be subject to the provisions of subsection (c) of this Section and to the provisions of clause SECOND of the subheading "Revenue Fund" above.

(g) The Issuer may create and establish a debt service reserve fund pursuant to the provisions of any resolution authorizing the issuance of Additional Bonds for the purpose of securing that particular issue or series of Additional Bonds or any specific group of issues or series of Additional Bonds and the amounts once deposited or credited to said debt service reserve funds shall be held solely for the benefit of the owners of the particular Additional Bonds for which such debt service reserve fund was established. Each such debt service reserve fund shall be designated in such manner as is necessary to identify the Additional Bonds it secures and to distinguish such debt service reserve fund from the debt service reserve funds created for the benefit of other Parity Obligations.

INVESTMENTS . . . Money in every Fund created by this Resolution may, at the option of the Issuer, be invested as provided in the Public Funds Investment Act, Chapter 2256, Texas Government Code, for the investment of funds of the entities described therein; provided 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. Interest and income derived from such deposits and investments shall be credited to the Fund from which the deposit or investment was made and shall be used only for the purpose or purposes for which such Fund is required or permitted to be used, except for interest and income derived from deposits or investments in any Reserve Fund established for any Parity Obligations under the subheading "Reserve Fund" above, which, to the extent such interest or income exceeds the amount required to be on deposit therein. Such investments shall be sold promptly when necessary to prevent any default in connection with the Parity Obligations.

DEFICIENCIES IN FUNDS . . . If the Issuer shall fail at any time to deposit into the Interest and Sinking Fund or any Reserve Fund established for any Parity Obligations under the subheading "Reserve Fund" above, the full amounts required, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available Net Revenues and such payments shall be in addition to the amounts otherwise required to be paid into said Funds.

FINAL PAYMENT AND UNCLAIMED FUNDS . . . (a) Whenever the total amount in the Interest and Sinking Fund and any Reserve Fund established for any Parity Obligations under the subheading "Reserve Fund" above, shall be equivalent to the aggregate principal amount of all Parity Obligations Outstanding, plus all interest accrued and to accrue on such Parity Obligations, no further payments need be made into the Interest and Sinking Fund or such Reserve Fund, and said obligations shall not be regarded as being Outstanding except for the purpose of being paid with the funds on hand.

(b) Any money deposited with the Paying Agent/Registrar in trust for the payment of the principal of, redemption premium, if any, or interest on any Parity Obligation and remaining unclaimed for four years after such principal of, redemption premium, if any, or interest on such Parity Obligation has become due and payable shall, subject to the unclaimed property laws of the State of Texas, be paid to the Issuer; provided, however, that before the Paying Agent/Registrar shall be required to make any such repayment, the Paying Agent/Registrar may at the expense of the Issuer cause to be published at least once, in a financial newspaper, journal, or publication of general circulation in The City of New York, New York, or in the State of Texas, a notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Issuer. After the payment of such unclaimed moneys to the Issuer, the owner of such Parity Obligation shall thereafter look only to the Issuer for the payment thereof, and all liability of the Paying Agent/Registrar with respect to such money shall thereupon cease.

DEFEASANCE OF PARITY OBLIGATIONS . . . (a) Any Parity Obligation and the interest thereon shall be deemed to be paid, retired, and no longer Outstanding (a "Defeased Bond") within the meaning of this Resolution, except to the extent provided in subsection (d) of this Section, when payment of the principal of such Parity Obligation, plus interest thereon to the due date (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), 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 for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Defeasance Securities which 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 Issuer with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds shall have become due and payable. At such time as a Parity Obligation shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Parity Obligation and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of the Net Revenues pledged as provided in this Resolution, and such principal and interest shall be payable solely from such money or Defeasance Securities.

(b) Notwithstanding the provisions of subsection (a), the Issuer expressly reserves the right, pursuant to Section 1207.033(c), Texas Government Code, to later call the Defeased Bonds for redemption in accordance with the provisions of this Resolution.

(c) Any moneys so deposited with the Paying Agent/Registrar may at the written direction of the Issuer also be invested in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Paying Agent/Registrar which is not required for the payment of the Defeased Bonds and interest thereon with respect to which such money has been so deposited, shall be turned over to the Issuer, or deposited as directed in writing by the Issuer.

(d) The term "Defeasance Securities" as used in this Section, shall mean any obligations now or hereafter permitted by State law to defease obligations such as the Series 2020 Bonds.

(e) Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the Issuer shall make proper arrangements to provide and pay for such services as required by this Resolution.

(f) In the event that the Issuer elects to defease less than all of the principal amount of Parity Obligations of a particular maturity, the Paying Agent/Registrar shall select such amount of Parity Obligations by such random method as it deems fair and appropriate.

SECURITY FOR FUNDS . . . All Funds created by this Resolution shall be secured in the manner and to the fullest extent required by law, including particularly, the Public Funds Collateral Act, Chapter 2257, Texas Government Code, and such Funds shall be used only for the purposes and in the manner permitted or required by this Resolution.

ADDITIONAL BONDS . . . (a) Subject to the provisions of subparagraph (b) hereof, the Issuer reserves the right to issue additional parity revenue bonds for any lawful purpose, including the refunding of any Parity Obligations, to be known as Additional Bonds, 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 then-Outstanding Parity Obligations.

(b) Without the written consent of the owners of at least 51% in aggregate principal amount of Parity Obligations Outstanding, if it then owns at least 51% of the Parity Obligations Outstanding, no series of Additional Bonds shall be issued unless:

(i) The Additional Bonds mature on, and interest is payable on, the same days of the year as the then-Outstanding Parity Obligations;

(ii) A certificate is executed by the President or the general manager of the Issuer to the effect that no default exists in connection with any of the covenants or requirements of the Resolution or Resolutions authorizing the issuance of all then Outstanding Parity Obligations and that the Interest and Sinking Fund and any Reserve Fund established for any Parity Obligations pursuant to the subheading "Reserve Fund" above, contains the amount then required to be on deposit therein;

(iii) A certificate is prepared and executed by a certified public accountant or professional engineer to the effect that, in the opinion of such officer, during either the next preceding Fiscal Year, or any twelve consecutive calendar month period ending not later than 90 days preceding the month in which the resolution authorizing the issuance of the then proposed Additional Bonds is passed, the Net Revenues of the Water System were at least 1.25 times the average annual principal and interest requirements on all Parity Obligation to be Outstanding after the delivery of the then proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Net Revenues for the

purposes of this subparagraph (iii), if there has been any increase in the rates or charges for services of the Water System which is then in effect but which was not in effect during all of the entire period for which the Net Revenues of the Water System are being calculated (hereinafter referred to as the "entire period") then the implementation of such Net Revenues may be incorporated into the Issuer's certification if a certified public accountant or professional engineer shall determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues of the Water System for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the Water System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period; and

(iv) An opinion of Bond Counsel is rendered to the effect that (i) such Additional Bonds are valid and binding obligations of the Issuer and enforceable in accordance with their terms subject to governmental immunity, bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies generally and to the extent that certain equitable remedies, including specific performance may not be available; (ii) such Additional Bonds have been duly and validly authorized and issued in accordance with law.

(c) The Issuer further reserves the right to issue bonds, notes, or other obligations of inferior liens and bonds, notes, or other obligations payable from sources other than Net Revenues. Special Project Bonds payable from and secured by revenues may be issued by the Issuer for the purpose of acquiring or constructing any facility which shall not be a part of the Water System at the time said Special Project Bonds are issued, provided that such Special Project Bonds are not payable from or secured by a pledge of the Net Revenues.

INSURANCE . . . (a) The Issuer shall cause to be insured such parts of the Facilities as would usually be insured by corporations operating like properties, with a responsible insurance company or companies, against risks, accidents, or casualties against which and to the extent insurance is usually carried by corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage by floods, and use and occupancy insurance. Public liability and property damage insurance also shall be carried. At any time while any contractor engaged in construction work shall be fully responsible therefor, the Issuer shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the bondholders and their representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the Issuer shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the Issuer. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the Issuer for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the Water System shall be deposited in a special and separate trust fund, at a Depository, to be designated the Insurance Account. The Insurance Account shall be held until such time as other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required.

(b) The annual audit hereinafter required shall contain a section commenting on whether or not the Issuer has complied with the requirements of this Section with respect to the maintenance of insurance, and shall state whether or not all insurance premiums upon the insurance policies to which reference is made have been paid.

OPERATION AND MAINTENANCE . . . While any of the Parity Obligations are Outstanding the Issuer covenants and agrees to keep and cause to be kept all of the Water System facilities in good condition, repair, and working order, and to operate and maintain and cause to be operated and maintained the said facilities in an efficient manner.

ACCOUNTS AND FISCAL YEAR . . . The Issuer shall keep proper books of records and accounts in which complete and correct entries shall be made of all transactions relating to the Gross Revenues and Net Revenues, and shall have said books audited once each fiscal year by a certified public accountant.

INSPECTION . . . Any registered owner of any Parity Obligations shall have the right at all reasonable times to inspect all financial records, accounts, audits, and data of the Issuer relating to the Water System.

SPECIAL COVENANTS . . . The Issuer further covenants and agrees that:

(a) **RATE COVENANT.** The Issuer will at all times fix, maintain, charge, and collect for services rendered by the Water System, rates and charges which will produce Net Revenues of the Issuer's Water System not less than 1.0 times the amount which, together with other revenues of the Issuer, if any, is required to pay all Debt Service on all Outstanding Parity Obligations and to make all other deposits now or hereafter required to be made into the Funds created by this Resolution in connection with the Parity Obligations.

(b) **ENCUMBRANCE AND SALE.** (1) Other than with respect to the Parity Obligations and except as provided in this Resolution, the Net Revenues have not in any manner been pledged to the payment of any debt or obligation of the Issuer, or otherwise; and while any of the Parity Obligations are Outstanding, the Issuer will not, except with respect to the Parity Obligations and except as provided in this Resolution, additionally encumber the Net Revenues unless such encumbrance is made junior and subordinate in all respects to the Parity Obligations and all liens, pledges, and covenants made in connection therewith.

(2) So long as the Parity Obligations are Outstanding, the Issuer shall not mortgage, pledge, encumber, sell, lease, or otherwise dispose of or impair its title to the Water System or any significant or substantial part thereof.

(c) **TITLE.** The Issuer lawfully owns or will own and is or will be lawfully possessed of the lands or easements upon which its Water System is and will be located, and has or will purchase good and indefeasible estate in such lands in fee simple, or has or will lawfully obtain any necessary easements to operate the Water System, that it warrants that it has or will obtain and will defend, the title to all the aforesaid lands and easements for the benefit of the owners of the

Parity Obligations against the claims and demands of all persons whomsoever, that is lawfully qualified to pledge the Net Revenues of the Issuer's Water System to the payment of the Parity Obligations, in the manner prescribed herein, and has lawfully exercised such rights.

(d) **LIENS.** The Issuer will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, or its Water System, that it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge upon its Water System, so that the priority of the lien on the Net Revenues of the Issuer's Water System granted hereunder shall be fully preserved in the manner provided herein; provided, however, that no such tax, assessment, or charge, and that no such claims which might be or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the Issuer.

(e) **PERFORMANCE.** It will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Resolution and each resolution authorizing the issuance of Parity Obligations, and in each and every Parity Obligation and, from the Net Revenues, pay the principal of and interest on every Parity Obligation on the dates and in the places and manner prescribed in such resolutions and Parity Obligations; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited from the Net Revenues of the Water System the amounts required to be deposited into the Interest and Sinking Fund and any Reserve Fund established pursuant to the subheading "Reserve Fund" above; and the Paying Agent/Registrar and any owner of the Parity Obligations may require the Issuer, its officials, agents, and employees to carry out, respect, or enforce the covenants and obligations of this Resolution or any resolution authorizing the issuance of Parity Obligations, including without limitation the use and filing of mandamus proceedings, in any court or competent jurisdiction, against the Issuer, its officials, agents, and employees.

(f) **LEGAL AUTHORITY.** It is duly authorized under the laws of the State of Texas to create and issue the Parity Obligations; that all action on its part for the creation and issuance of the Parity Obligations has been duly and effectively taken, and that the Parity Obligations in the hands of the owners thereof are and will be valid and enforceable special obligations of the Issuer in accordance with their terms.

(g) **PERMITS.** It will comply with all of the terms and conditions of any and all franchises, permits, and authorizations applicable to or necessary with respect to the Water System and which have been obtained from any governmental agency; and the Issuer has or will obtain and keep in full force and effect all franchises, permits, authorizations, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the Water System.

AMENDMENT OF RESOLUTION . . . (a) The Issuer may from time to time, without the consent of any holder, except as otherwise required by paragraph (b) below, amend or supplement this Resolution in order to (i) cure any ambiguity, defect or omission in this Resolution that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions

of this Resolution and that shall not materially adversely affect the interests of the holders, (iv) qualify this Resolution under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (v) make such other provisions in regard to matters or questions arising under this Resolution as shall not be inconsistent with the provisions of this Resolution and that shall not in the opinion of the Issuer's Bond Counsel materially adversely affect the interests of the holders.

(b) Except as described in paragraph (a) above, the holders of Series 2020 Bonds aggregating in principal amount a majority of the aggregate principal amount of then outstanding Bonds that are the subject of a proposed amendment shall have the right from time to time to approve any amendment hereto that may be deemed necessary or desirable by the Issuer; provided, however, that, without the written consent of all of the owners of the Series 2020 Bonds, nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in the Resolution or in the Bonds so as to:

- (1) Make any change in the maturities of the Outstanding Series 2020 Bonds;
- (2) Reduce the rate of interest borne by any of the Outstanding Series 2020 Bonds;
- (3) Reduce the amount of the principal payable on the Series Outstanding 2020 Bonds;
- (4) Modify the terms of payment of principal or of interest or redemption premium on the Outstanding Series 2020 Bonds or impose any conditions with respect to such payment; or
- (5) Change the minimum percentage of the principal amount of Outstanding Series 2020 Bonds necessary for consent to such amendment.

(c) If at any time the Issuer shall desire to make any amendments to this Resolution requiring consent of holders of the Parity Obligations under this Section, the Issuer shall cause notice of the proposed amendment to be published in a newspaper or financial journal of general circulation in the State of Texas, once during each calendar week for at least two successive calendar weeks. If, because of temporary or permanent suspension of publication or general circulation of such newspapers or journals, it is impossible or impracticable to publish such notice in the manner provided herein, then such publication in lieu thereof as the Issuer shall deem satisfactory shall constitute sufficient publication of such notice. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Issuer for inspection by all owners of Parity Obligations. Such publication is not required, however, if notice in writing is given to each owner of Parity Obligations.

(d) Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice the Issuer shall receive an instrument or instruments executed by the owners of at least 51% in aggregate principal amount of all Parity Obligations then Outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which shall specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the Issuer, the Issuer may pass the amendatory order in substantially the same form.

(e) Upon the passage of any amendatory resolution pursuant to the provisions of this Section, the Resolution shall be deemed to be amended in accordance with such amendatory resolution, and the respective rights, duties, and obligations under the Resolution of the Issuer and all the owners of the then Outstanding Parity Obligations and all future Additional Bonds shall thereafter be determined, exercised, and endorsed hereunder, subject in all respects to such amendments.

(f) Any consent given by the owner of a Parity Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or giving of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Parity Obligation during such period. Such consent may be revoked at any time after six months from the date of the first publication or giving of such notice by the owners who gave such consent, or by a successor in title, by filing notice thereof with the Issuer, but such revocation shall not be effective if the owners of 51% aggregate principal amount of the then Outstanding Parity Obligations as in this Section defined have, prior to the attempted revocation, consented to and approved the amendment.

DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS . . . (a) Replacement Bonds. In the event any Outstanding Parity Obligation is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Parity Obligation, in replacement for such Parity Obligation in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Parity Obligation shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Parity Obligation, the registered owner applying for a replacement bond shall furnish to the Issuer and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Parity Obligation, the registered owner shall furnish to the Issuer and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Parity Obligation, as the case may be. In every case of damage or mutilation of a Parity Obligation, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Parity Obligation so damaged or mutilated.

(c) No Default Occurred. Notwithstanding the foregoing provisions of this Section, in the event any such Parity Obligation shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Parity Obligation, the Issuer may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Parity Obligation) instead of issuing a replacement Parity Obligation, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuing Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the registered owner of such Parity Obligation with all legal, printing, and other expenses in connection therewith. Every replacement bond issued

pursuant to the provisions of this Section by virtue of the fact that any Parity Obligation is lost, stolen, or destroyed shall constitute a contractual obligation of the Issuer whether or not the lost, stolen, or destroyed Parity Obligation shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Resolution equally and proportionately with any and all other Parity Obligations duly issued under this Resolution.

(e) Authority for Issuing Replacement Bonds. In accordance with Subchapter D of Chapter 1201, Texas Government Code, this Section of this Resolution shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the Issuer or any other body or person, and the duty of the replacement of such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Parity Obligations in the form and manner and with the effect, as for Parity Obligations issued in conversion and exchange for other Parity Obligations.

COVENANTS REGARDING TAX EXEMPTION . . . The Issuer covenants to refrain from taking any action which would adversely affect, and to take any required action to ensure, the treatment of the Series 2020 Bonds as obligations described in Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the Issuer covenants as follows:

(a) to take any action to assure that no more than 10 percent of the proceeds of the Series 2020 Bonds or the projects financed therewith (less amounts deposited to a reserve fund, if any) or the projects financed therewith are used for any "private business use," as defined in Section 141(b)(6) of the Code or, if more than 10 percent of the proceeds or the projects financed therewith are so used, such amounts, whether or not received by the Issuer, with respect to such private business use, do not, under the terms of this Resolution, or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Series 2020 Bonds, in contravention of Section 141(b)(2) of the Code;

(b) to take any action to assure that in the event that the "private business use" described in subsection (a) hereof exceeds 5 percent of the proceeds of the Series 2020 Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate," within the meaning of Section 141(b)(3) of the Code, to the governmental use;

(c) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Series 2020 Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of Section 141(c) of the Code;

(d) to refrain from taking any action which would otherwise result in the Series 2020 Bonds being treated as "private activity bonds" within the meaning of Section 141(b) of the Code;

(e) to refrain from taking any action that would result in the Series 2020 Bonds being "federally guaranteed" within the meaning of Section 149(b) of the Code;

(f) to refrain from using any portion of the proceeds of the Series 2020 Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in Section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Series 2020 Bonds, other than investment property acquired with

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(1) proceeds of the Series 2020 Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 90 days or less until such proceeds are needed for the purpose for which the Series 2020 Bonds or refunding bonds are issued,

(2) amounts invested in a bona fide debt service fund, within the meaning of Section 1.148-1(b) of the rules and regulations of the United States Department of the Treasury (the "Treasury Regulations"), and

(3) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Series 2020 Bonds;

(g) to otherwise restrict the use of the proceeds of the Series 2020 Bonds or amounts treated as proceeds of the Series 2020 Bonds, as may be necessary, so that the Series 2020 Bonds do not otherwise contravene the requirements of Section 148 of the Code (relating to arbitrage);

(h) to refrain from using the proceeds of the Series 2020 Bonds or proceeds of any prior bonds to pay debt service on another issue more than 90 days after the date of issue of the Series 2020 Bonds in contravention of the requirements of section 149(d) of the Code (relating to advance refundings); and

(i) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Series 2020 Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of Section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Series 2020 Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under Section 148(f) of the Code; and

For purposes of the foregoing (a) and (b), the Issuer understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Series 2020 Bonds. It is the understanding of the Issuer that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Series 2020 Bonds, the Issuer will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally-recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Series 2020 Bonds under Section 103 of the Code. In the event that regulations or rulings are

hereafter promulgated which impose additional requirements which are applicable to the Series 2020 Bonds, the Issuer agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally-recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Series 2020 Bonds under Section 103 of the Code. In furtherance of such intention, the Issuer hereby authorizes and directs each of the President of the Board of Directors and the General Manager of the Issuer to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the Issuer, which may be permitted by the Code as are consistent with the purpose for the issuance of the Series 2020 Bonds.

In order to facilitate compliance with the above covenant (i), a "Rebate Fund" is hereby established by the Issuer for the sole benefit of the United States of America, and such fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purposes of compliance with Section 148 of the Code.

INTEREST EARNINGS ON SERIES 2020 BOND PROCEEDS . . . The earnings, if any, derived from the investment of proceeds from the sale of the Series 2020 Bonds shall be used for extensions and improvements to the Water System; provided that after completion of the extensions and improvements to the Water System, if any of such interest earnings remain on hand, such interest earnings shall be deposited in the Interest and Sinking Fund. It is further provided, however, that interest earnings on the Series 2020 Bonds proceeds which are required to be rebated to the United States of America pursuant to the subheading "Covenants Regarding Tax Exemption" above in order to prevent the Series 2020 Bonds from being arbitrage bonds shall be so rebated and not considered as interest earnings for the purpose of this Section.

ALLOCATION OF, AND LIMITATION ON, EXPENDITURES FOR THE PROJECT; DISPOSITION OF THE PROJECT . . . (a) The Issuer covenants to account for the expenditure of Series 2020 Bond proceeds and investment earnings to be used for the construction or acquisition of the property constituting the project financed with proceeds of the sale of the Series 2020 Bonds on its books and records by allocating proceeds to expenditures within 18 months of the later of the date that (1) the expenditure is made or (2) such construction or acquisition is completed. The foregoing notwithstanding, the Issuer shall not expend proceeds of the Series 2020 Bonds or investment earnings thereon more than 60 days after the earlier of (1) the fifth anniversary of the delivery of the Series 2020 Bonds or (2) the date the Series 2020 Bonds are retired, unless the Issuer obtains an opinion of nationally-recognized bond counsel that such expenditure will not adversely affect the tax-exempt status of the Series 2020 Bonds. For purposes hereof, the Issuer shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the Bonds on the Series 2020 Bonds.

(b) The Issuer covenants that the property constituting the project financed with proceeds of the Series 2020 Bonds will not be sold or otherwise disposed in a transaction resulting in the receipt by the Issuer of cash or other compensation, unless any action taken in connection with such disposition will not adversely affect the tax-exempt status of the Series 2020 Bonds. For purpose of the foregoing, the Issuer may rely on an opinion of nationally-recognized bond counsel that the action taken in connection with such sale or other disposition will not adversely affect the tax-exempt status of the Series 2020 Bonds. For purposes of the foregoing, the portion of the

property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the Issuer shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

DEFAULT AND REMEDIES

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

(i) the failure to make payment of the principal of or interest on any of the Series 2020 Bonds when the same becomes due and payable; or

(ii) default in the performance or observance of any other covenant, agreement or obligation of the Issuer, the failure to perform which materially, adversely affects the rights of the registered owners of the Series 2020 Bonds, including, but not limited to, their prospect or ability to be repaid in accordance with this Resolution, and the continuation thereof for a period of 60 days after notice of such default is given by any Registered Owner to the Issuer.

(b) Remedies for Default.

(i) Upon the happening of any Event of Default, then and in every case, any Registered Owner or an authorized representative thereof, including, but not limited to, a trustee or trustees therefor, may proceed against the Issuer for the purpose of protecting and enforcing the rights of the Registered Owners under this Resolution, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Registered Owners hereunder or any combination of such remedies.

(ii) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Registered Owners of Parity Obligations then outstanding.

(c) Remedies Not Exclusive.

(i) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Series 2020 Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Resolution, the right to accelerate the debt evidenced by the Series 2020 Bonds shall not be available as a remedy under this Resolution.

(ii) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

(iii) By accepting the delivery of a Series 2020 Bond authorized under this Resolution, such Registered Owner agrees that the certifications required to effectuate any covenants or representations contained in this Resolution do not and shall never constitute or give rise to a personal or pecuniary liability or charge against the officers, employees or directors of the Issuer or the Board.

DESIGNATION AS QUALIFIED TAX-EXEMPT OBLIGATIONS . . . The Issuer hereby designates the Series 2020 Bonds as "qualified tax-exempt obligations" as defined in section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code"), conditioned upon the Purchaser certifying that the aggregate initial offering price of the Series 2020 Bonds to the public (excluding any accrued interest) is no greater than \$10 million (or such other amount permitted by such section 265 of the Code). Assuming such condition is met, in furtherance of such designation, the Issuer represents, covenants and warrants the following: (a) that during the calendar year in which the Series 2020 Bonds are issued, the Issuer (including any subordinate entities) has not designated nor will designate bonds, which when aggregated with the Series 2020 Bonds, will result in more than \$10,000,000 (or such other amount permitted by such section 265 of the Code) of "qualified tax-exempt obligations" being issued; (b) that the Issuer reasonably anticipates that the amount of tax-exempt obligations issued during the calendar year in which the Series 2020 Bonds are issued, by the Issuer (or any subordinate entities) will not exceed \$10,000,000 (or such other amount permitted by such section 265 of the Code) ; and, (c) that the Issuer will take such action or refrain from such action as necessary, and as more particularly set forth in this Section, in order that the Series 2020 Bonds will not be considered "private activity bonds" within the meaning of section 141 of the Code.

CONTINUING DISCLOSURE UNDERTAKING

(a) Annual Reports.

The Issuer shall provide annually to the MSRB, in an electronic format as prescribed by the MSRB, for each fiscal year ending in or after 2020, financial information and operating data with respect to the Issuer of the general type set forth in the Official Statement, provided that such information and data is customarily prepared by the Issuer and publicly available. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in the annual financial reports of the Issuer, or such other accounting principles as the Issuer may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the Issuer commission an audit of such statements and the audits are completed within the period during which they must be provided. If the audits of such financial statements is not complete within such period, then the Issuer shall provide unaudited financial information that is available to the Issuer by the required time and will provide audited financial statements for the applicable fiscal year to the MSRB, when and if the audit reports on such statements become available. Such information shall be transmitted electronically to the MSRB, in such format and accompanied by such identifying information as prescribed by the MSRB.

If the Issuer changes its fiscal year, the Issuer will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the Issuer otherwise would be required to provide financial information and operating data pursuant to this Section. The financial

information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document that is available to the public on the MSRB's internet website or filed with the SEC. All documents provided to the MSRB pursuant to this Section shall be accompanied by identifying information as prescribed by the MSRB.

(b) Event Notices.

(i) The Issuer shall file notice of any of the following events with respect to the Series 2020 Bonds with the MSRB in a timely manner and not more than 10 business days after occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Series 2020 Bonds, or other material events affecting the tax status of the Series 2020 Bonds;
- (7) Modifications to rights of holders of the Series 2020 Bonds, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Series 2020 Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership, or similar event of the Issuer;
- (13) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, 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 Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer, 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 Issuer, any of which reflect financial difficulties.

For these purposes, (i) any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer 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 Issuer, or if such

jurisdiction has been assumed by leaving the existing governing body and officials or officers of the Issuer 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 Issuer., and (ii) the Issuer intends the words used in the immediately preceding paragraphs (15) and (16) and the definition of Financial Obligation in this Section to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

(iii) The Issuer shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, of any failure by the Issuer to provide financial information or operating data in accordance with this subsection by the time required. All documents provided to the MSRB pursuant to this subsection shall be accompanied by identifying information as prescribed by the MSRB.

(c) Limitations, Disclaimers, and Amendments.

(i) The Issuer shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the Issuer remains an "obligated person" with respect to the Series 2020 Bonds within the meaning of the Rule, except that the Issuer in any event will give notice of any deposit made in accordance with this Resolution or applicable law that causes Series 2020 Bonds no longer to be Outstanding.

(ii) The provisions of this Section are for the sole benefit of the registered owners and beneficial owners of the Series 2020 Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Issuer undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Issuer's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The Issuer does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Series 2020 Bonds at any future date.

(iii) UNDER NO CIRCUMSTANCES SHALL THE ISSUER BE LIABLE TO THE REGISTERED OWNER OR BENEFICIAL OWNER OF ANY SERIES 2020 BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE ISSUER, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

(iv) No default by the Issuer in observing or performing its obligations under this Section shall comprise a breach of or default under this Resolution for purposes of any other

provision of this Resolution. Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the Issuer under federal and state securities laws.

(v) Should the Rule be amended to obligate the Issuer to make filings with or provide notices to entities other than the MSRB, the Issuer hereby agrees to undertake such obligation with respect to the Series 2020 Bonds in accordance with the Rule as amended. The provisions of this Section may be amended by the Issuer 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 Issuer, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Series 2020 Bonds in the primary offering of the Series 2020 Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of this Resolution that authorizes such an amendment) of the Outstanding Series 2020 Bonds consent to such amendment or (b) a person that is unaffiliated with the Issuer (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The Issuer may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Series 2020 Bonds in the primary offering of the Series 2020 Bonds. If the Issuer so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with subsection (b) of this Section an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided.

(d) Definitions.

As used in this Section, the following terms have the meanings ascribed to such terms below:

"Financial Obligation" means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

"MSRB" means the Municipal Securities Rulemaking Board.

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

"SEC" means the United States Securities and Exchange Commission and any successor to its duties.

PROVISIONS RELATING TO BOND INSURANCE . . . For so long as the Series 2020 Bonds are insured by the Insurer (as defined herein), the following provisions shall apply to the Series 2020 Bonds, and the provisions of this Section shall govern, notwithstanding any other provision to the contrary set forth in this Resolution:

(a) Definitions.

"Business Day" shall mean any date that is not a Saturday, Sunday, a legal holiday or a day on which banking institutions in the city where the principal corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close.

"Insurance Policy" means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2020 Bonds when due.

"Insurer" means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof'.

(b) The prior written consent of the Insurer shall be a condition precedent to the deposit of any Credit Facility provided in lieu of a cash deposit into the Reserve Fund, if any. Notwithstanding anything to the contrary set forth in this Resolution, amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service due on the Series 2020 Bonds.

(c) The Insurer shall be deemed to be the sole holder of the Series 2020 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2020 Bonds insured by it are entitled to take pursuant to this Resolution pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Paying Agent/Registrar. In furtherance thereof and as a term of this Resolution and each Series 2020 Bond, the Paying Agent/Registrar and each Series 2020 Bondholder appoint the Insurer as their agent and attorney-in-fact and agree that the Insurer may at any time during the continuation of any proceeding by or against the Issuer under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Paying Agent/Registrar and each Series 2020 Bondholder delegate and assign to the Insurer, to the fullest extent permitted by law, the rights of the Paying Agent/Registrar and each Series 2020 Bondholder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Remedies granted to the Bondholders expressly include mandamus.

(d) The maturity of Series 2020 Bonds insured by the Insurer shall not be accelerated without the consent of the Insurer and in the event the maturity of the Series 2020 Bonds is accelerated, the Insurer may elect, in its sole discretion, to pay accelerated principal, and interest accrued on such principal, to the date of acceleration (to the extent unpaid by the Issuer) and the

Paying Agent shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Insurer's obligations under the Insurance Policy with respect to such Series 2020 Bonds shall be fully discharged.

(e) No grace period for a covenant default shall exceed 30 days or be extended for more than 60 days, without the prior written consent of the Insurer. No grace period shall be permitted for payment defaults.

(f) The Insurer is hereby deemed to be a third party beneficiary to this Resolution.

(g) Upon the occurrence of an extraordinary optional, special or extraordinary mandatory redemption in part, the selection of Series 2020 Bonds to be redeemed shall be subject to the approval of the Insurer. The exercise of any provision of this Resolution which permit the purchase of Series 2020 Bonds in lieu of redemption shall require the prior written approval of the Insurer if any Series 2020 Bond so purchased is not cancelled upon purchase.

(h) Any amendment, supplement, modification to, or waiver of, this Resolution or any other transaction document, including any underlying security agreement (each a "Related Document"), that requires the consent of Series 2020 Bond owners or adversely affects the rights and interests of the Insurer shall be subject to the prior written consent of the Insurer.

(i) Unless the Insurer otherwise directs, upon the occurrence and continuance of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default, amounts on deposit in the Series 2020 Bond Construction Fund shall not be disbursed, but shall instead be applied to the payment of debt service or redemption price of the Series 2020 Bonds.

(j) The rights granted to the Insurer under this Resolution or any other Related Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Series 2020 Bond holders and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Series 2020 Bond owners or any other person is required in addition to the consent of the Insurer.

(k) Notwithstanding subsection (d) under the subheading "Defeasance of Parity Obligations" above, and only to the extent permitted by law, only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, or (5) subject to the prior written consent of the Insurer, securities eligible for "AAA" defeasance under then existing criteria of S & P or any combination thereof, shall be used to effect defeasance of the Series 2020 Bonds unless the Insurer otherwise approves.

To accomplish defeasance, the Issuer shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Series 2020 Bonds in full on the maturity or redemption date ("Verification"), (ii) a Future Escrow Agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Series 2020 Bonds are no longer "Outstanding" under this Resolution and (iv) a certificate of discharge of the Paying Agent/Registrar with respect to the Series 2020 Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Issuer, Paying Agent/Registrar and Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

The Series 2020 Bonds shall be deemed "Outstanding" under this Resolution unless and until they are in fact paid and retired or the above criteria are met.

(l) Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of this Resolution and the Series 2020 Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Issuer in accordance with this Resolution. This Resolution shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

(m) In addition to the covenants of the Issuer set forth in subsection (d) under the subheading "Pledge" above, the Issuer agrees to cause the Paying Agent/Registrar to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the Net Revenues under applicable law.

(n) Claims Upon the Insurance Policy and Payments by and to the Insurer.

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Paying Agent/Registrar, after making all transfers and deposits required under this Resolution, moneys sufficient to pay the principal of and interest on the Series 2020 Bonds due on such Payment Date, the Paying Agent/Registrar shall give notice to the Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Series 2020 Bonds due on such Payment Date, the Paying Agent/Registrar shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series 2020 Bonds and the amount required to pay principal of the Series 2020 Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

The Paying Agent/Registrar shall designate any portion of payment of principal on Series 2020 Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series 2020 Bonds registered to the then current Series 2020 Bond holder, whether DTC or its nominee or otherwise, and shall issue a replacement Series 2020 Bond to the Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Paying Agent/Registrar's failure to so designate any payment or issue any replacement Series 2020 Bond shall have no effect on the amount of principal or interest payable by the Issuer on any Series 2020 Bond or the subrogation rights of the Insurer.

The Paying Agent/Registrar shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Series 2020 Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Paying Agent/Registrar.

Upon payment of a claim under the Insurance Policy, the Paying Agent/Registrar shall establish a separate special purpose trust account for the benefit of Series 2020 Bond holders referred to herein as the "Policy Payments Account" and over which the Paying Agent/Registrar shall have exclusive control and sole right of withdrawal. The Paying Agent/Registrar shall receive any amount paid under the Insurance Policy in trust on behalf of Series 2020 Bond holders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Paying Agent/Registrar to Series 2020 Bond holders in the same manner as principal and interest payments are to be made with respect to the Series 2020 Bonds under the sections hereof regarding payment of Series 2020 Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything herein to the contrary, the Issuer agrees to pay to the Insurer (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the "Insurer Advances"); and (ii) interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the "Insurer Reimbursement Amounts"). For purposes of this Section, "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Series 2020 Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The Issuer hereby covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Net Revenues and payable from such Net Revenues on a parity with debt service due on the Series 2020 Bonds.

Funds held in the Policy Payments Account shall not be invested by the Paying Agent/Registrar and may not be applied to satisfy any costs, expenses or liabilities of the Paying

Agent/Registrar. Any funds remaining in the Policy Payments Account following a Series 2020 Bond payment date shall promptly be remitted to the Insurer.

(o) The Insurer shall, to the extent it makes any payment of principal of or interest on the Series 2020 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy (which subrogation rights shall also include the rights of any such recipients in connection with any Insolvency Proceeding). Each obligation of the Issuer to the Insurer under the Related Documents shall survive discharge or termination of such Related Documents.

(p) The Issuer shall pay or reimburse the Insurer any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under this Resolution or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, this Resolution or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with this Resolution or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this Resolution or any other Related Document.

(q) After payment of reasonable expenses of the Paying Agent/Registrar, the application of funds realized upon default shall be applied to the payment of expenses of the Issuer or rebate only after the payment of past due and current debt service on the Series 2020 Bonds and amounts required to restore the Reserve Fund to the Required Reserve.

(r) The Insurer shall be entitled to pay principal or interest on the Series 2020 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Insurance Policy) and any amounts due on the Series 2020 Bonds as a result of acceleration of the maturity thereof in accordance with the Resolution, whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

(s) The notice address of the Insurer is: Assured Guaranty Municipal Corp., 1633 Broadway, New York, New York 10019, Attention: Managing Director - Surveillance, Re: Policy No. 159648, Telephone: (212) 974-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

(t) The Insurer shall be provided with the following information by the Issuer or Paying Agent/Registrar, as the case may be:

(i) Annual audited financial statements within 210 days after the end of the Issuer's fiscal year (together with a certification of the Issuer that it is not aware of any default or Event of

Default under this Resolution), and the Issuer's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time;

(ii) Notice of any draw upon the Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Required Reserve and (ii) withdrawals in connection with a refunding of Series 2020 Bonds;

(iii) Notice of any default known to the Paying Agent/Registrar or Issuer within five Business Days after knowledge thereof;

(iv) Prior notice of the advance refunding or redemption of any of the Series 2020 Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(v) Notice of the resignation or removal of the Paying Agent/Registrar and the appointment of, and acceptance of duties by, any successor thereto;

(vi) Notice of the commencement of any proceeding by or against the Issuer commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(vii) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Series 2020 Bonds;

(viii) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents; and

(ix) All reports, notices and correspondence to be delivered to Series 2020 Bond holders under the terms of the Related Documents.

In addition, all information furnished pursuant to the subheading "Continuing Disclosure Undertaking" above shall also be provided to the Insurer, simultaneously with the furnishing of such information.

(u) The Insurer shall have the right to receive such additional information as it may reasonably request.

(v) The Issuer will permit the Insurer to discuss the affairs, finances and accounts of the Issuer or any information the Insurer may reasonably request regarding the security for the Series 2020 Bonds with appropriate officers of the Issuer and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the Issuer on any business day upon reasonable prior notice.

(w) The Issuer shall notify the Insurer of any failure of the Issuer to provide notices, certificates and other information under the transaction documents.

(x) Notwithstanding satisfaction of the other conditions to the issuance of Additional Obligations set forth in this Resolution, no such issuance may occur (1) if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists unless such default shall be cured upon such issuance and (2) unless the Reserve Fund is fully funded at the Required Reserve (including the proposed issue) upon the issuance of such Additional Obligations, in either case unless otherwise permitted by the Insurer.

(y) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under this Resolution would adversely affect the security for the Series 2020 Bonds or the rights of the Series 2020 Bond holders, the Paying Agent/Registrar shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

(z) No contract shall be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the Series 2020 Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

(aa) If the Bonds are issued for refunding purposes, there shall be delivered an opinion of Bond Counsel addressed to the Insurer (or a reliance letter relating thereto), or a certificate of discharge of the Paying Agent for the Refunded Bonds, to the effect that, upon the making of the required deposit to the escrow, the legal defeasance of the Refunded Bonds shall have occurred.

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APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

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Financial Advisory Services
Provided By

