

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Preliminary Official Statement is delivered in final form. Under no circumstances shall the Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

(See "Continuing Disclosure of Information" herein)

NEW ISSUE - Book-Entry-Only

PRELIMINARY OFFICIAL STATEMENT

Dated May 18, 2021

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

In the opinion of Bond Counsel, interest on the Series 2021 Bonds will be excludable from gross income for purposes of federal income taxation under statutes, regulations, published rulings and court decisions existing on the date of such opinion, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

THE SERIES 2021 BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$10,275,000*
COLORADO RIVER MUNICIPAL WATER DISTRICT
WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2021

Dated Date: May 1, 2021
Interest Accrues from Delivery Date

Due: January 1, as shown below

PAYMENT TERMS . . . Interest on the \$10,275,000* Colorado River Municipal Water District Water System Revenue Refunding Bonds, Series 2021 (the "Series 2021 Bonds") will accrue from the date of initial delivery (the "Delivery Date") to the Underwriter shown below and will be payable on January 1 and July 1 of each year, commencing July 1, 2021. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Series 2021 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 Series 2021 Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Series 2021 Bonds will be made to the owners thereof.** Principal of and interest on the Series 2021 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 Series 2021 Bonds. See "THE SERIES 2021 BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A.; payments of principal and interest on the Series 2021 Bonds will be made through the Paying Agent/Registrar's Dallas, Texas office (see "THE SERIES 2021 BONDS - Paying Agent/Registrar").

SECURITY AND SOURCE OF PAYMENT . . . The Series 2021 Bonds are and shall be secured by and payable from a first lien on and pledge of the Pledged Revenues of the Water System (the "System") of the Colorado River Municipal Water District (the "District"). Pledged Revenues consist of the Net Revenues of the System (as defined herein) and any additional revenues, income, receipts, grants, donations, or other resources, received or to be received from any public or private source, which in the future may, at the option of the District, be pledged to the payment of certain outstanding Bonds, the Series 2021 Bonds, and any Additional Bonds (see "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION" and "THE SERIES 2021 BONDS - Security and Source of Payment").

AUTHORITY FOR ISSUANCE . . . The Series 2021 Bonds are issued pursuant to the general laws of the State of Texas, particularly Chapter 340, Acts of 1949, 51st Legislature of Texas, Regular Session, as amended, Chapter 1207, Texas Government Code, as amended, and pursuant to a bond resolution (the "Bond Resolution") adopted by the Board of Directors of the District. In the Bond Resolution, the Board has delegated the authority to a designated officer of the District to establish the terms and details of the Series 2021 Bonds and to effect the sale of the Series 2021 Bonds pursuant to an "Approval Certificate" (the Bond Resolution and the Approval Certificate are jointly referred to as the "Resolution"). See "THE SERIES 2021 BONDS - Authority for Issuance".

PURPOSE . . . Proceeds from the sale of the Series 2021 Bonds will be used to refund a portion of the District's outstanding debt (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Series 2021 Bonds. See Schedule I for a detailed listing of the Refunded Obligations and their redemption date and price and "PLAN OF FINANCING - Purpose" and "- Refunded Obligations".

BOND INSURANCE . . . The District has submitted applications to municipal bond insurance companies to have the payment of the principal and interest on the Series 2021 Bonds insured by a municipal bond insurance policy. In the event the Series 2021 Bonds are qualified for municipal bond insurance, the District may elect to purchase, at its sole expense, municipal bond insurance to insure the timely payment of the principal and interest on the Series 2021 Bonds. (See "BOND INSURANCE" and "BOND INSURANCE - Bond Insurance Risk Factors" herein.)

MATURITY SCHEDULE*
(Due January 1)

CUSIP Prefix: 196558⁽¹⁾

Amount	Maturity	Rate	Yield	CUSIP Suffix ⁽¹⁾	Amount	Maturity	Rate	Yield	CUSIP Suffix ⁽¹⁾
\$ 875,000	2022				\$ 1,130,000	2027			
925,000	2023				1,185,000	2028			
975,000	2024				1,240,000	2029			
1,025,000	2025				1,295,000	2030			
1,075,000	2026				550,000	2031			

(1) 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. Neither the District, the Underwriter, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Series 2021 Bonds having stated maturities on January 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on January 1, 2030, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date of redemption. See "THE SERIES 2021 BONDS - Optional Redemption".

LEGALITY . . . The Series 2021 Bonds are offered for delivery when, as and if issued and received by the Underwriter and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (see APPENDIX C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by Norton Rose Fulbright US LLP, Dallas, Texas.

DELIVERY . . . It is expected that the Series 2021 Bonds will be available for delivery through DTC on June 29, 2021.

RAYMOND JAMES

* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule"), this document constitutes an "official statement" of the District with respect to the Series 2021 Bonds that has been "deemed final" by the District as of its date except for the omission of no more than the information permitted by the Rule.

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

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

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation, promise or guarantee of the Financial Advisor or the Underwriter.

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the Financial Advisor. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2021 BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2021 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2021 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2021 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE SERIES 2021 BONDS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, IF ANY, CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE SERIES 2021 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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 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 STATEMENT.

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

COLORADO RIVER MUNICIPAL WATER DISTRICT

BOARD OF DIRECTORS

Fred M. Jones, President..... Odessa
Dr. John Myers, Vice President Big Spring
Jeff Knowles, Vice President Snyder
Clif Talbot, Secretary / Treasurer Big Spring
Steve Mackey Snyder
Dr. Jimmy Goates Odessa
Carl Smith..... Snyder
Gary N. Haner P.E. Odessa
Daniel J. Hollmann Odessa
Jeff Brorman Big Spring
Mark Cochran Snyder
Richard Steel..... Big Spring

MANAGEMENT OFFICERS

John W. Grant..... General Manager
Cole D. Walker, P.E..... Assistant General Manager - Operations
Kevin W. Krueger, P.E. Assistant Manager
Mireya Castilaw..... Manager – Financial Services

CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P., Dallas, Texas Bond Counsel
Freese and Nichols, Inc., Fort Worth, Texas Consulting Engineers
Bolinger, Segars, Gilbert & Moss, L.L.P., Lubbock, Texas Certified Public Accountants
Hilltop Securities Inc., Fort Worth, Texas..... Financial Advisor

For additional information regarding the District, please contact:

Mr. John W. Grant General Manager Colorado River Municipal Water District 400 East 24 th Street P.O. Box 869 Big Spring, Texas 79721-0869 (432) 267-6341	or	Mr. David K. Medanich Mr. Nick Bulaich Hilltop Securities Inc. 777 Main Street, Suite 1525 Fort Worth, TX 76102 (817) 332-9710
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PRELIMINARY OFFICIAL STATEMENT

RELATING TO

\$10,275,000*

COLORADO RIVER MUNICIPAL WATER DISTRICT WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2021

INTRODUCTION

This Preliminary Official Statement, which includes the cover page, Schedule I and the Appendices hereto, provides certain information regarding the issuance of \$10,275,000* Colorado River Municipal Water District Water System Revenue Refunding Bonds, Series 2021 (the "Series 2021 Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Resolution adopted on April 14, 2021 authorizing the issuance of the Series 2021 Bonds (the "Bond Resolution") except as otherwise indicated herein. In the Bond Resolution, as permitted by the provisions of Chapter 1207, Texas Government Code, as amended, the Board of Directors delegated the authority to designated officers of the District (hereinafter defined) to establish the terms and details of the Series 2021 Bonds and to effect the sale of the Series 2021 Bonds pursuant to an "Approval Certificate" (the Bond Resolution and the Approval Certificate are jointly referred to as the "Resolution").

There follows in this Official Statement descriptions of the Series 2021 Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Hilltop Securities Inc., Dallas, Texas.

DESCRIPTION OF THE DISTRICT . . . The Colorado River Municipal Water District (the "District") is a political subdivision of the State of Texas and a conservation and reclamation district organized and existing under Article 16, Section 59 of the Texas Constitution, pursuant to Chapter 340, Acts of the 51st Legislature of the State of Texas Regular Session, 1949, as amended (the "Act"), for the purpose of providing water to the member cities of Odessa, Big Spring, and Snyder. Additionally, the District has executed contracts to provide specified quantities of water to the contract cities of Midland, San Angelo, Stanton, and Abilene (through the West Central Texas Municipal Water District) and to the Millersview-Doole Water Supply Corporation.

INFECTIOUS DISEASE OUTLOOK (COVID-19) . . . The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

The Member Cities expect that their revenues and cash flow could be adversely affected during the continuance of the Pandemic as a result of a Governor's directive that prevents utilities from charging late fees and disconnect fees and from disconnecting customers during such time. The Member Cities may also experience a reduction in water and sewer sales as customers delay payments. While the potential impact of the Pandemic on the Member Cities cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the Member Cities' operations and financial conditions, and therefore impair the ability of the Member Cities to make payment to the District to pay debt service on the Bonds.

The District continues to monitor the spread of COVID-19 and is following the directives of local, state, and national agencies to address the potential impact of COVID-19 upon the District and the Cities. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the Member Cities' financial conditions.

* Preliminary, subject to change.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Series 2021 Bonds will be used to refund a portion of the District’s outstanding debt (the "Refunded Obligations") (see Schedule I for a detailed listing of the Refunded Obligations) for debt service savings and to pay the costs associated with the issuance of the Series 2021 Bonds.

PAYMENT OF REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations are to be paid on the redemption date for the Refunded Obligations from funds to be deposited pursuant to a certain Deposit Agreement (the "Deposit Agreement") between the District and The Bank of New York Mellon Trust Company, N.A. Dallas, Texas (the "Paying Agent for the Refunded Obligations"). The Resolution provides that from the proceeds of the sale of the Series 2021 Bonds received from the Underwriter, the District will deposit with the Paying Agent for the Refunded Obligations the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on the redemption date. Such funds will be held uninvested by the Paying Agent for the Refunded Obligations in a special account (the "Payment Account"). Under the Deposit Agreement, the Payment Account is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations. The Paying Agent for the Refunded Obligations will certify as to the sufficiency of the amounts initially deposited with the Paying Agent for the Refunded Obligations to pay the principal of and interest on the Refunded Obligations on the redemption date.

By the deposit of the proceeds from the sale of the Series 2021 Bonds and cash, if necessary, with the Paying Agent for the Refunded Obligations pursuant to the Deposit Agreement, the District will have affected the defeasance of the Refunded Obligations in accordance with State law and the resolution authorizing the issuance of the Refunded Obligations. As a result of such defeasance and in reliance upon the certification of the District’s Financial Advisor, as to the sufficiency of the deposit, the Refunded Obligations will be outstanding for the purpose of receiving payments from the amounts 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 sources and secured in the manner provided in the resolution authorizing their issuance or for any other purposes.

SOURCES AND USE OF PROCEEDS . . . The proceeds from the sale of the Series 2021 Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of Series 2021 Bonds	\$ -
Original Issue Premium	-
Transfer from Prior Issue Debt Service Funds	-
Transfer from Debt Service Reserve Funds	-
Total Sources of Funds	\$ -
 <u>Uses of Funds</u>	
Deposit to Payment Account	\$ -
Cost of Issuance ⁽¹⁾	-
Total Uses of Funds	\$ -

(1) Includes the Underwriter' Discount.

THE SERIES 2021 BONDS

DESCRIPTION OF THE SERIES 2021 BONDS . . . The Series 2021 Bonds are dated May 1, 2021, and mature on January 1 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the date of initial delivery (the "Delivery Date"), to the Underwriter (defined herein), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on each January 1 and July 1, commencing July 1, 2021 until maturity or prior redemption. The definitive Series 2021 Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York, pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Series 2021 Bonds will be made to the owners thereof.** Principal of and interest on the Series 2021 Bonds will be payable by the Paying Agent/Registrar (hereinafter defined) 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 Series 2021 Bonds. See "THE SERIES 2021 BONDS - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Series 2021 Bonds are being issued pursuant to Chapter 340, Acts of 1949, 51st Legislature of Texas, Regular Session, as amended, Chapter 1207, Texas Government Code, as amended, and other applicable laws, and the Resolution. The Series 2021 Bonds are designated "Additional Bonds", as permitted by resolutions authorizing the issuance of the District's Series 2010 Water System Revenue Bonds, the Series 2010A Water System Revenue Bonds, and the Series 2017 Water System Revenue Refunding Bonds. The outstanding and unrefunded portion of the Series 2010 Water System Revenue Bonds, the Series 2010A Water System Revenue Bonds, and the Series 2017 Water System Revenue Refunding Bonds, together with the Series 2021 Bonds are hereinafter collectively referred to as the "Bonds". The original payment amounts and outstanding principal amounts of the Bonds are as follows:

Dated Date	Original Issue Amount	Outstanding Debt ⁽¹⁾	Issue Description
5/1/2010	\$ 11,685,000	\$ 6,245,000	Water System Revenue Bonds, Series 2010
11/1/2010	11,970,000	6,875,000	Water System Revenue Bonds, Series 2010A
11/1/2017	96,915,000	94,715,000	Water System Revenue Refunding Bonds, Series 2017
	<u>\$120,570,000</u>	<u>\$107,835,000</u>	

(1) As of April 1, 2021. Includes the Refunded Bonds. Excludes the Series 2021 Bonds.

SECURITY AND SOURCE OF PAYMENT . . . The Series 2021 Bonds, together with all of the other Bonds and any Additional Bonds, are and shall be secured by and payable from a first lien on and pledge of the "Pledged Revenues" of the District which consist of the "Net Revenues" of the "System", consisting of certain revenues and income secured by the District pursuant to the water supply contract with (a) the cities of Big Spring, Odessa, and Snyder, Texas, which are currently the "Member Cities", constituting the territory and boundaries of the District and (b) the cities of Midland, San Angelo, Stanton, and Abilene, Texas and the Millersview-Doole Water Supply Corporation and other water customers of the District and which in the future may, at the option of the District, include other resources (see "WATER SUPPLY CONTRACTS WITH MEMBER CITIES" and "WATER SUPPLY CONTRACT WITH CONTRACT ENTITIES" below). Pursuant to *separate* contracts, dated September 1, 1985, between the District, the cities of Midland and San Angelo, Texas, and the West Central Texas Municipal Water District ("WCTMWD") (which has been assigned in all respects to the City of Abilene), such cities and WCTMWD (now City of Abilene) have *each* agreed to pay 16.54% (a sum equivalent to 49.62%) of the annual debt service requirements on the Bonds issued for construction of the O. H. Ivie Reservoir (formerly known as Stacy Reservoir), and an equivalent percentage of the annual administrative and maintenance expenses of such Reservoir. The balance of annual principal and interest payments on the Bonds (including the Series 2021 Bonds) and any Additional Bonds and administrative and maintenance expenses will be paid by the District from revenues received under contracts with its Member Cities, other contract cities and other available revenues. The revenues received from the contracts with Midland, San Angelo and Abilene are part of Pledged Revenues.

RATE COVENANT . . . The Resolution provides that the District will fix, establish, maintain, revise (if and when necessary), and collect such rates, charges, and fees for the sale of water from the System and for the use and availability of the System as are necessary to produce Gross Revenues of the System sufficient, together with any other Pledged Revenues, (a) to pay all Operation and Maintenance Expenses of the System and (b) to produce Pledged Revenues for each fiscal year at least equal to 1.10 times the payments and deposits required to be made into the Interest and Redemption Fund and the Reserve Fund during each such year, as required by the Resolution and any resolutions authorizing the issuance of Additional Bonds.

RESERVE FUND REQUIREMENTS . . . When and so long as the money and investments in the Reserve Fund are at least equal to a required amount in market value equal to the average annual principal and interest requirements of all then outstanding Bonds (the "Required Amount"), no deposits shall be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than said Required Amount, then, subject and subordinate to making the required deposits to the credit of the Interest and Redemption Fund, the District shall transfer from Pledged Revenues and deposit to the credit of the Reserve Fund, on or before the 25th day of December of each year, a sum equal to 1/5th of the Required Amount. The District specifically covenants that it will annually on or before the 25th day of December of each year; deposit any surplus in the Reserve Fund over the Required Amount to the credit of the Interest and Redemption Fund.

ADDITIONAL BONDS . . . The District shall have the right and power at any time and from time to time, subject to certain limitations, including certain coverage requirements set forth in the Resolution, and in one or more series or issues, to authorize, issue, and deliver additional parity revenue bonds ("Additional Bonds"), in any amounts, for any lawful purpose related to the System, including the refunding of any Bonds (including the Series 2021 Bonds) or Additional Bonds. Such Additional Bonds, if and when authorized, issued, and delivered in accordance with the Resolution, shall be secured by and made payable equally and ratably on a parity with the Bonds (including the Series 2021 Bonds), and all other outstanding Additional Bonds, from an irrevocable first lien on and pledge of the Pledged Revenues. (See the subheading "Additional Bonds" and "Further Requirements for Additional Bonds" under the heading "CERTAIN PROVISIONS OF THE BOND RESOLUTION" herein.)

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Series 2021 Bonds having stated maturities on January 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on January 1, 2030, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date of redemption. If fewer than all of the Series 2021 Bonds are to be redeemed, the District may select the maturities and amounts of Series 2021 Bonds to be redeemed. If fewer than all the Series 2021 Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Series 2021 Bonds are in Book-Entry-Only form) shall determine by lot the Series 2021 Bonds, or portions thereof, within such maturity to be redeemed. If a Series 2021 Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Series 2021 Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Series 2021 Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Series 2021 Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE SERIES 2021 BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY SERIES 2021 BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE . . . The Resolution provides for the defeasance of Series 2021 Bonds when the payment of the principal of such Series 2021 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 and/or (2) Government Obligations, 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 ensure 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 Series 2021 Bonds. The Resolution provides that "Government Obligations" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book entry form.

Upon such deposit as described above, such Series 2021 Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the District has the option, to be exercised at the time of the defeasance of the Series 2021 Bonds, to call for redemption, at an earlier date, those Series 2021 Bonds which have been defeased to their maturity date, if the District (i) in the proceedings providing the firm banking and financial arrangements, expressly reserves the right to call the Series 2021 Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Series 2021 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.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Series 2021 Bonds is to be transferred and how the principal of, premium, if any, and interest on the Series 2021 Bonds are to be paid to and accredited by DTC while the Series 2021 Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Underwriter consider the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The District and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Series 2021 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Series 2021 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC, New York, New York, will act as securities depository for the Series 2021 Bonds. The Series 2021 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 security certificate for each maturity will be issued for the Series 2021 Bonds in the aggregate principal amount thereof and will be deposited with DTC.

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

Purchases of Series 2021 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2021 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 Participants' records. Beneficial Owners will not receive written confirmation from DTC of their

purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Series 2021 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2021 Bonds, except in the event that use of the book-entry system for the Series 2021 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2021 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 Series 2021 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 Series 2021 Bonds; DTC's records reflect only the identity of the Direct Participant to whose account such Series 2021 Bonds are credited, which may or may not be a Beneficial Owner. The 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2021 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. will consent or vote with respect to the Series 2021 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2021 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Series 2021 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar on payable dates 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 in 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, the Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to DTC is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2021 Bonds at any time by giving reasonable notice to the District and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2021 Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2021 Bonds will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Series 2021 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Series 2021 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisors or the Underwriter of the Series 2021 Bonds.

Effect of Termination of Book-Entry-Only System. In the event the Book-Entry-Only System with respect to the Series 2021 Bonds is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Series 2021 Bonds is discontinued by the District, printed securities certificates will be issued to the holders of the affected Series 2021 Bonds, and the applicable Series 2021 Bonds will be subject to transfer, exchange, and registration provisions as set forth in the Resolution, summarized under "The Series 2021 Bonds - Transfer, Exchange, and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent/Registrar"), currently in Dallas, Texas. In the Resolution, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Series 2021 Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Series 2021 Bonds. Upon any change in the Paying Agent/Registrar for the Series 2021 Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Series 2021 Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Series 2021 Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Series 2021 Bonds may be assigned by the execution of an assignment form on the respective Series 2021 Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Series 2021 Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Series 2021 Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Series 2021 Bonds issued in an exchange or transfer of Series 2021 Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Series 2021 Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Series 2021 Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Series 2021 Bonds surrendered for exchange or transfer. See "THE SERIES 2021 BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Series 2021 Bonds. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Series 2021 Bond called for redemption during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Series 2021 Bonds on any interest payment date means the close of business on the 15th day of the preceding month.

SERIES 2021 BONDHOLDERS' REMEDIES . . . The Resolution establishes specific events of default with respect to the Series 2021 Bonds. If the District defaults in the payment of the principal of or interest on any of the Series 2021 Bonds when due or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners of the Series 2021 Bonds, including but not limited to, their prospect or ability to be repaid in accordance with the Resolution, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Resolution provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Series 2021 Bonds or the Resolution and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so it rests with the discretion of the court, but it may not be arbitrarily refused. There is no acceleration of maturity of any of the Series 2021 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 Series 2021 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.

The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (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 Series 2021 Bonds may not be able to bring such a suit against the District for breach of the covenants in the Series 2021 Bonds or in the Resolution. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Series 2021 Bonds.

Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under 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, including holders of the Series 2021 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 opinions of Bond Counsel will note that all opinions relative to the enforceability of the Series 2021 Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Series 2021 Bonds will be Cede & Co., the nominee of DTC. See "THE SERIES 2021 BONDS - Book-Entry-Only System" above for a description of the duties of DTC with regard to ownership of the Series 2021 Bonds.

BOND INSURANCE

GENERAL . . . The District has submitted applications to municipal bond insurance companies to have the payment of the principal of and interest on the Series 2021 Bonds insured by a municipal bond insurance policy. In the event the Series 2021 Bonds are qualified for municipal bond insurance, and the District desires to purchase such insurance, the cost will be paid by the District. Any fees to be paid to the rating agencies as a result of said insurance will be paid by the District. It will be the responsibility of the District to disclose the existence of insurance, its terms, and the effect thereof with respect to the reoffering of the Series 2021 Bonds. If the District obtains a commitment from a bond insurance company (the "Insurer") to provide a municipal bond insurance policy relating to the Series 2021 Bonds (the "Policy"), and elects to utilize bond insurance, the final Official Statement shall disclose certain information relating to the Insurer and the Policy.

BOND INSURANCE RISK FACTORS . . . In the event of default of the scheduled payment of principal of or interest on the Series 2021 Bonds when all or a portion thereof becomes due, any owner of the Series 2021 Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional redemption of the Series 2021 Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such redemption by the District (unless the Insurer chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Series 2021 Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist. 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 owners.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Series 2021 Bonds would be payable solely from the sources of funds pledged to the payment of the Series 2021 Bonds (see "THE SERIES 2021 BONDS – Security and Source of Payment"). In the event the Insurer becomes obligated to make payments with respect to the Series 2021 Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Series 2021 Bonds.

If a Policy is acquired, the long-term ratings on the Series 2021 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 Series 2021 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 Series 2021 Bonds.

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. None of the District, the Financial Advisor or the Underwriter has made independent investigation into the claims-paying ability of any potential Insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential Insurer is given.

CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS . . . Moody's Investors Service, Inc., S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLP ("S&P"), and Fitch Ratings (collectively, the "Rating Agencies") have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Series 2021 Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of any such bond insurer to pay principal and interest on the Series 2021 Bonds and the claims paying ability of any such bond insurer, particularly over the life of the Series 2021 Bonds.

THE DISTRICT

CREATION . . . The Colorado River Municipal Water District was created as a conservation and reclamation district under Article 16, Section 59 of the Constitution of Texas and pursuant to Chapter 340, Acts of 51st Legislature, Regular Session, 1949, as amended, (the "Act") and constitutes a governmental agency and body politic and corporate. The District, as originally established, comprised all of the territory which was contained within the Cities of Big Spring and Odessa on March 1, 1949. As of February 5, 1951, the City of Snyder became a part of the District in accordance with the Act's provision for addition of other territory. Presently, the District's primary boundaries are the city limits of the Cities of Big Spring, Odessa and Snyder, (the "Member Cities"), as they existed on January 1, 1981. By amending the District's original Act in 1981, through the legislative process, the District is now empowered to add additional territory into its boundaries from time to time. See "Annexations" below. The 1981 amendment to the Act further authorizes the District to assist municipalities and industrial organizations in the financing of water and sewer facilities and air pollution control facilities, all located within a 34-county area (approximately 31,000 square miles in the Permian Basin area of West Texas).

POWERS . . . The District is empowered, among other things, to impound the storm and flood waters and the unappropriated flow of the Colorado River and its tributaries by the construction of a dam or dams across said river and its tributaries and to develop or otherwise acquire all works, plants and other facilities necessary or useful for the purpose of processing such water and transporting it to cities and others for municipal, domestic and industrial purposes. No dam or other works for the impounding of water from said river shall be constructed until the plan therefor is approved by the Texas Commission on Environmental Quality (the "TCEQ").

For the purpose of carrying out any power or authority conferred by the Act, the District shall have the right to acquire land and easements within and without the District (including land above the probable high water line around the reservoirs) by the exercise of the power of eminent domain. The amount and character of interest in land and easements thus acquired shall be determined by the Board of Directors of the District (the "Board").

ANNEXATIONS . . . The Act provides that other territory may be annexed to the District under certain conditions. If the petition for annexation is approved by the Board, the application is referred to the TCEQ. If the latter concludes, after holding public hearings, that the land in such territory will be benefited by inclusion in the District, the proposal must then be approved by a majority vote at an election called in the territory seeking annexation. On joining the District, the new territory will be entitled to appoint four additional members to the Board if its population is more than 5,000, according to the latest Federal census, but only two additional members if its population is 5,000 or less.

BOARD OF DIRECTORS . . . All powers of the District shall be exercised by its Board. Each of the Member Cities elects four Directors who serve staggered two-year terms. The current members of the Board of Directors are:

PRESIDENT

Mr. Fred M. "Mickey" Jones of Odessa was appointed to the Board in June of 2006. He is a native Odessan and an attorney in private practice since 1980. Mr. Jones has served as a member of the Ector County ISD, Region 18 Service Center, Permian Basin Regional Planning Commission, and the Samaritan Counseling Center of West Texas. He is also a past president of the Odessa Chamber of Commerce and Odessa Country Club.

VICE PRESIDENT

Dr. John Myers, DDS, of Big Spring, became a Director in January 2011. Dr. Myers has served as a past Board Member of the First Methodist church and currently serves on the Scenic Mountain Medical Center Board. He is a graduate of the University of Texas and Baylor College of Dentistry.

VICE PRESIDENT

Mr. Jeff Knowles of Snyder has been a Director since January 2015. Mr. Knowles has over 20 years of experience in banking and finance, most recently as a Senior Vice President and Commercial Lender for a regional bank. Mr. Knowles graduated from Texas Tech University with a degree in Finance.

SECRETARY/TREASURER

Mr. Clif Talbot of Big Spring previously served as a Director from June 2004 to January 2011 and returned to serve on the Board in March of 2017. A Big Spring native, he holds a Bachelor of Science in Zoology from Texas A&M University and a Masters in Health Care Administration from Trinity University. After working for both a Dallas hospital and Cigna Corporation, he returned to Big Spring to care for the family farm, commercial, residential and oil/gas interests. A previous Chairman of the Board of Commissioners for the Big Spring Housing Authority, Talbot currently serves as one of the Board of Directors for Citizens Federal Credit Union, a Trustee on the G.C. Broughton Foundation and a member of the Big Spring Rotary Club.

DIRECTORS

Mr. Steve Mackey of Snyder has been a Director since May 2019. Mr. Mackey is a native west Texan who retired from Exxon Mobil after 35 years of service in 2016. . He is a member of the Snyder Lions Club, a volunteer for the Texas Ramp Project, a past Board Member for the Houston North Emmaus Community and a member of the First Baptist Church in Snyder, Texas.

Dr. Jimmy Goates of Odessa has been a Director since November 2012. Dr. Goates served 14 years on the Odessa City Council and several years on the Odessa Housing Finance Corporation Board of Directors. Currently Dr. Goates serves on the board of the Odessa Industrial Development Corporation and on the Board of the Odessa Regional Medical Center. Dr. Goates was a practicing general dentist in Odessa since 1976. Dr. Goates is now retired.

Mr. Carl Smith of Snyder has been a Director since September 2017. Mr. Smith was Co-owner and General Manager of Ira Pump & Supply, Inc. from 1980 to 2014. After the sale of Ira Pump & Supply he served as General Manager for Applied Industrial Technologies from November 2014 to December 2016 at which time he took retirement. He has served on various Boards including the Ira Independent School District, Scurry County Tax Appraisal District, Scurry Welfare and Chairman of Deacons, Elder, of First Baptist Church Snyder Texas.

Mr. Gary N. Haner, PE of Odessa has been a Director since May 2013. Mr. Haner is a Registered Professional Engineer in Texas and New Mexico, and a Register Professional Land Surveyor in Texas. Mr. Haner has been a consulting engineer and leader of a construction firm specializing in water, oil, and gas facilities and pipelines for over 47 years.

Mr. Daniel J Hollmann of Odessa has been a Director since May 2012. Mr. Hollmann is an attorney and has practiced in Odessa since 1976. His practice is primarily corporate and tax related. In addition to being an attorney Mr. Hollmann is licensed as a certified public accountant. Mr. Hollmann has served on numerous civic and nonprofit boards during his career.

Mr. Jeff Broman of Big Spring has been a Director since March 2017. Mr. Broman has worked in various positions at the Big Spring Refinery from 1996 to 2018 and is currently Permian Basin Operations Director for Marathon Petroleum. He graduated from Texas Tech University in December 1991 with a Bachelor of Science Degree in Mechanical Engineering. Mr. Broman is a past member of Board of Trustees for the Big Spring Independent School District.

Mr. Mark Cochran of Snyder was appointed to the Board in March of 2019. A native of Snyder, Mr. Cochran has worked in various locations across Texas and New Mexico in the oil and gas industry for the past 39 years. After retiring from Chevron, he returned to Snyder in 2015 and is currently the Permian Basin Manager for Denver based Lario Oil & Gas Company.

Mr. Richard Steel of Big Spring became a Director in June 2020. He has been a resident of Big Spring since 1989, when he began working at State National Bank where he currently serves as President and CEO. Mr. Steel currently serves on the Board of Directors of the Big Spring Area Community Foundation, and has served as a past Director and President of Big Spring Economic Development Corp. He is also a former Board Member and Officer of Big Spring Area Chamber of Commerce, United Way of Big Spring and Howard County, Dora Roberts Rehabilitation Center.

MANAGEMENT . . . General Manager - Mr. John W. Grant, has been with the District since 1995. Prior to being named General Manager he spent his entire professional career with an engineering firm in the private sector. Mr. Grant is Chair of the Region F Regional Water Planning Group and has been since its inception in 1998. He is a past President of the Texas Water Conservation Association (TWCA). He is also on the Board of Directors of the TWCA Risk Management Fund. Mr. Grant attended Tarrant County Junior College and the University of Texas at Arlington.

ACTIVITIES . . . The District's primary activity is the collection and delivery of water to meet the contract requirements of its Member Cities, Contract Cities and non-municipal customers. The District owns and operates several diversion facilities which are designed to improve the quality of water flowing into its reservoirs.

FINANCIAL INFORMATION

TABLE 1 - WATER SYSTEM OPERATING STATEMENT - REVENUE FUND

	Fiscal Year Ended September 30,				
	2020	2019	2018	2017	2016
Income:					
Municipal Customers	\$ 38,824,652	\$ 38,133,606	\$ 38,725,768	\$ 36,646,459	\$ 36,510,920
Industrial Customers	2,383,097	3,034,417	1,373,035	1,285,847	432,814
Other	8,744,364	13,705,130	5,892,550	6,694,940	9,106,762
Total Income	\$ 49,952,114	\$ 54,873,153	\$ 45,991,353	\$ 44,627,246	\$ 46,050,497
Expense:					
Water Purchased	\$ 88,230	\$ 51,253	\$ 45,564	\$ 85,947	\$ 111,164
Other	15,087,412	14,208,125	14,193,881	13,790,510	13,556,877
Total Expense⁽¹⁾	\$ 15,175,642	\$ 14,259,378	\$ 14,239,445	\$ 13,876,457	\$ 13,668,041
Available for Debt Service	\$ 34,776,472	\$ 40,613,775	\$ 31,751,908	\$ 30,750,789	\$ 32,382,456

(1) Does not include capital outlay.

TABLE 2 – MEMBER CITIES AND CUSTOMER CITIES REVENUE

MEMBER CITIES	Water Revenue for Fiscal Year Ending September 30,									
	2020		2019		2018		2017		2016	
Odessa	\$ 18,933,368	37.90%	\$ 18,588,757	33.88%	\$ 17,469,102	37.98%	\$ 16,835,934	37.73%	\$ 17,184,384	37.32%
Big Spring	3,885,516	7.78%	4,185,833	7.63%	4,057,108	8.82%	3,780,406	8.47%	4,129,586	8.97%
Snyder	1,261,251	2.52%	1,310,573	2.39%	1,320,586	2.87%	1,365,114	3.06%	1,487,985	3.23%
Sub-Total	\$ 24,080,135	48.21%	\$ 24,085,163	43.89%	\$ 22,846,796	49.68%	\$ 21,981,453	49.26%	\$ 22,801,955	49.52%
CUSTOMER CITIES										
Stanton	\$ 225,744	0.45%	\$ 277,812	0.51%	\$ 288,000	0.63%	\$ 293,944	0.66%	\$ 280,052	0.61%
San Angelo	1,520,178	3.04%	1,518,433	2.77%	1,462,511	3.18%	1,481,338	3.32%	2,350,494	5.10%
Midland	17,812,194	35.66%	16,841,991	30.69%	18,095,770	39.35%	17,217,184	38.58%	17,218,434	37.39%
Pyote	-	0.00%	47,612	0.09%	54,596	0.12%	41,058	0.09%	40,333	0.09%
Grandfalls	2,472	0.00%	4,174	0.01%	21,822	0.05%	23,511	0.05%	18,189	0.04%
WTTS/ University Lands	-	0.00%	37	0.00%	496	0.00%	350	0.00%	2,133	0.00%
Monahans	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Millersview-Doole WSC	522,476	1.05%	627,424	1.14%	635,572	1.38%	505,395	1.13%	572,646	1.24%
West Central Texas										
Municipal Water District	-	0.00%	-	0.00%	-	0.00%	-	0.00%	883,019	1.92%
Abilene	47,053	0.09%	77,058	0.14%	44,633	0.10%	69,579	0.16%	6,215	0.01%
Sub-Total	\$ 20,130,116	40.30%	\$ 19,394,541	35.34%	\$ 20,603,400	44.80%	\$ 19,632,359	43.99%	\$ 21,371,515	46.41%
Total Municipal Customers	\$ 44,210,251	88.51%	\$ 43,479,703	79.24%	\$ 43,450,196	94.47%	\$ 41,613,813	93.25%	\$ 44,173,470	95.92%
INDUSTRIAL	\$ 2,383,097	4.77%	\$ 3,034,417	5.53%	\$ 1,373,035	2.99%	\$ 1,285,847	2.88%	\$ 432,814	0.94%
RECREATION	\$ 250,749	0.50%	\$ 163,562	0.30%	\$ 117,895	0.26%	\$ 139,744	0.31%	\$ 104,106	0.23%
OTHER	\$ 3,108,017	6.22%	\$ 8,195,471	14.94%	\$ 1,050,227	2.28%	\$ 1,587,842	3.56%	\$ 1,340,106	2.91%
TOTAL	\$ 49,952,114	100.00%	\$ 54,873,153	100.00%	\$ 45,991,353	100.00%	\$ 44,627,246	100.00%	\$ 46,050,497	100.00%

TABLE 3 - COVERAGE AND FUND BALANCES⁽¹⁾

Average Annual Principal and Interest Requirements, 2021-2044	\$ 10,213,114 ⁽²⁾
Coverage of Average Requirements by 9/30/20 Net Available.	3.41 times
Maximum Principal and Interest Requirements, 2021	\$ 21,005,871 ⁽²⁾
Coverage of Maximum Requirements by 9/30/20 Net Available.	1.66 times
Water System Revenue Bonds Outstanding as of 4/1/21	\$ 104,990,000 ⁽¹⁾⁽³⁾
Interest and Redemption Fund, 4/1/21	\$ 734
Reserve Fund, 4/1/21	\$ 14,673,360 ⁽⁴⁾

- (1) Includes the Series 2021 Bonds being offered herein. Excludes the Refunded Obligations. Preliminary, subject to change.
 (2) Includes the Subordinate Lien State Participation debt service. (See "Debt Service Requirements" herein).
 (3) Does not include the Subordinate Lien State Participation debt service due to the Texas Water Development Board. (See "Debt Service Requirements" herein).
 (4) A portion of the existing Reserve Fund will be contributed into the escrow of the Series 2021 Bonds at closing.

RETIREMENT PLAN . . . The District contributes to the Colorado River Municipal Water District pension trust and retirement plan, a defined benefit, single employer plan. All employees who are employed on a basis to work 1,000 hours or more a year, and who, as of the plan's anniversary date, have been employees for six months or longer are eligible to participate in the plan.

As of December 31, 2019 the Plan has 122 plan members. Of the total members 65 are active, 22 are inactive, and 35 are retired or have beneficiaries currently receiving benefits.

CONTRIBUTIONS . . . The basis for determining contributions is an actuarially determined contribution rate that is calculated each year in the Plan's Actuarial Valuation Report. The actuarially determined contribution rate is the estimated amount necessary to finance the costs of benefits earned by Plan members during the year, with additional amounts to finance any unfunded accrued liability and plan administrative expenses.

In accordance with the Plan's governing document, employees may be required to contribute to the Plan. Employee contributions are currently waived. The actuarially determined contribution for the measurement period ending December 31, 2019 is \$678,491 for employer contributions and the District contributed \$590,337.

BENEFITS . . . The basic monthly retirement income is payable for 120 months certain life and thereafter, based on a formula of 1.5% of high-five average monthly salary per year of service up to 15 years, plus 2% of high-five average monthly salary for each year of service in excess of 15 years at the normal retirement date. Any participant who is age 55 and has completed 20 or more years of service may retire and receive an immediate monthly benefit equal to his accrued benefit reduced by 5% for each year by which early retirement precedes normal retirement.

Employees are vested after the first 5 years of credited service, and 25% vested after 5 years of credited service, increasing at a rate of 5% per year thereafter for the next 5 years and increasing at a rate of 10% per year for each year in excess of 10 years of credited service, i.e. 100% vested after 15 years of credited service and 100% of the accrued benefit attributable to employee contributions plus interest credited at the rate of 5% per annum. The Retirement Plan was amended effective January 1, 1999 and no longer requires a mandatory employee contribution as a condition of participation.

NET PENSION LIABILITY OF THE PLAN . . . The components of the net pension liability of the Plan at December 31, 2019 were as follows:

Total Pension Liability	\$ 11,793,641
Plan Fiduciary Net Position	<u>10,699,777</u>
Plan Net Pension Liability	\$ 1,093,864
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.72%

DEFINED CONTRIBUTION PLAN . . . The District also sponsors a section 457 salary deferral plan in conjunction with a 401a defined contribution plan. Employees qualifying for the defined benefit pension plan would also qualify for the 457 salary deferral plan. Employees participating in the 457 plan as of December 1st each year are eligible for contributions from the District in the 401a plan. During the current period the District contributed \$113,572 on behalf of the District's employees in the 401a plan in accordance with the salary deferral agreements.

DEBT INFORMATION

TABLE 4 - DEBT SERVICE REQUIREMENTS

Year Ended 9/30	Outstanding Debt ⁽¹⁾			The Series 2021 Bonds ⁽²⁾			Subordinate Lien State Participation Debt Service Requirements ⁽³⁾	Total Outstanding Debt	% of Principal Retired ⁽⁴⁾
	Principal	Interest	Total	Principal	Interest	Total			
2021	\$ 13,775,000	\$ 5,154,340	\$ 18,929,340	\$ -	\$ -	\$ -	\$ 2,076,531	\$ 21,005,871	
2022	8,395,000	4,525,875	12,920,875	875,000	395,783	1,270,783	3,627,440	17,819,098	
2023	8,545,000	4,102,375	12,647,375	925,000	357,500	1,282,500	3,627,440	17,557,315	
2024	8,975,000	3,664,375	12,639,375	975,000	319,500	1,294,500	3,627,440	17,561,315	
2025	9,420,000	3,204,500	12,624,500	1,025,000	279,500	1,304,500	3,627,440	17,556,440	32.25%
2026	9,890,000	2,721,750	12,611,750	1,075,000	237,500	1,312,500	3,627,440	17,551,690	
2027	10,390,000	2,214,750	12,604,750	1,130,000	193,400	1,323,400	3,627,440	17,555,590	
2028	10,920,000	1,682,000	12,602,000	1,185,000	147,100	1,332,100	3,627,440	17,561,540	
2029	11,470,000	1,122,250	12,592,250	1,240,000	98,600	1,338,600	3,627,440	17,558,290	
2030	3,800,000	740,500	4,540,500	1,295,000	47,900	1,342,900	4,048,813	9,932,213	65.41%
2031	4,775,000	526,125	5,301,125	550,000	11,000	561,000	4,075,407	9,937,532	
2032	5,810,000	261,500	6,071,500	-	-	-	4,095,440	10,166,940	
2033	2,325,000	58,125	2,383,125	-	-	-	4,118,549	6,501,674	
2034	-	-	-	-	-	-	4,139,185	4,139,185	
2035	-	-	-	-	-	-	4,161,847	4,161,847	80.85%
2036	-	-	-	-	-	-	4,182,343	4,182,343	
2037	-	-	-	-	-	-	4,205,954	4,205,954	
2038	-	-	-	-	-	-	4,232,221	4,232,221	
2039	-	-	-	-	-	-	4,255,800	4,255,800	
2040	-	-	-	-	-	-	4,279,619	4,279,619	90.34%
2041	-	-	-	-	-	-	4,308,007	4,308,007	
2042	-	-	-	-	-	-	4,332,132	4,332,132	
2043	-	-	-	-	-	-	4,361,525	4,361,525	
2044	-	-	-	-	-	-	4,390,601	4,390,601	100.00%
	<u>\$ 108,490,000</u>	<u>\$ 29,978,465</u>	<u>\$ 138,468,465</u>	<u>\$ 10,275,000</u>	<u>\$ 2,087,783</u>	<u>\$ 12,362,783</u>	<u>\$ 94,283,493</u>	<u>\$ 245,114,741</u>	

(1) Excludes the Refunded Bonds. Preliminary, subject to change.

(2) Average life of the issue - 5.080 years. Interest on the Series 2021 Bonds has been calculated at the rate of 1.18% for purposes of illustration. Preliminary, subject to change.

(3) Includes the debt service on the District's Subordinate Lien State Participation related to the District's purchase of additional ground water supplies, initially entered into in the principal amount of \$45,315,000 in May of 2010.

(4) % of Principal Retired includes Subordinate Lien State Participation Debt Service Requirements.

DISTRICT'S WATER SYSTEM

The main sources of the District's supply of water are from reservoirs constructed by the District on the Colorado River, namely, Lake J. B. Thomas, the E. V. Spence Reservoir, and the O. H. Ivie Reservoir. As of March of 2021, these reservoirs were at 12.5%, 22.0%, and 60.8% of capacity respectively. The combined capacity of these reservoirs is 1,272,216 acre-feet or 414.55 billion gallons. The three reservoirs have a firm yield of 121,190 acre-feet per annum based on stream flow records from 1941 through 2005 (64 years). This yield equates to 108 million gallons of water per day. The reservoir yields were last reviewed by the District's consulting engineer in July 2006.

To supplement this surface water supply, the District has developed a group of producing wells in several separate areas. The Martin County Well Field, located in the southern portion of Martin County, can produce up to 2.0 million gallons per day. The Ward County South Well Field, situated on land owned by the University of Texas System, in Ward County, is capable of producing up to 22 million gallons per day, with normal pumping from this well field being 16 million gallons per day. The Ward County North Well Field, which was acquired from Luminant Generation in 2010 has an installed well capacity of 49 million gallons per day and an installed transmission capacity of 30 million gallons per day.

In May of 2013, the District completed the 2.0 million gallon per day Raw Water Production Facility (water reclamation plant) in Big Spring. This plant uses the City of Big Spring's treated wastewater effluent as the source of water, which is treated using membrane filtration, reverse osmosis, and advance ultraviolet oxidation and then blended back into the District's raw water transmission system for delivery to several municipal and industrial customers that provides additional treatment as required for their needs.

The District's raw water transmission system now in operation includes more than 600 miles of pipeline. The lines vary from 21 inches to 60 inches in diameter, with the average being in excess of 36 inches. Twenty-six pump stations are located throughout the District's pipeline network. Each of these stations has electrically driven pumps. These pump stations are monitored and operated remotely by a computerized supervisory control system located at the District's Big Spring office.

The District's main supply system is the 156-mile Ivie Reservoir to Odessa-Midland pipeline. This line was placed in service on March 7, 1995, and includes seven pump stations which lift the water 1,450 vertical feet. The line has a current capacity of 65 million gallons per day from the reservoir to San Angelo (Segment I), and 43 million gallons per day between San Angelo and the Odessa-Midland terminal (Segments II and III). Eventually the line could be expanded to pump 90 million gallons per day through Segment I, 65 million gallons per day through Segment II (to the Big Spring Junction), and 55 million gallons per day through Segment III.

Under the terms and conditions of contracts signed June 29, 1988, the Cities of San Angelo and Midland are participants in the Ivie Reservoir Pipeline. This pipeline system is designed to deliver 25 million gallons to San Angelo, 20 million gallons to Midland, and 45 million gallons of water to the District on a daily basis. Correspondingly, the two cities are financially responsible for their pro-rata share of the debt service. Separate contracts, dated April 26, 1994, specify the financial obligations incurred by the two cities with respect to the operation and maintenance of the pipeline system.

Five terminal storage reservoirs allow the District to meet changing water demands with a minimum of operational changes. These reservoirs, which vary in capacity from 15 to 100 million gallons, are typically located near the point of delivery for the larger District customers. They also allow the District to reduce pumping during the higher priced "on-peak" electric supply hours, without interrupting water service to its Member and Customer Cities.

In December of 2012 the District completed upgrades to a portion of its water system to allow the gravity flow of water from west (Odessa) to east (Snyder). The District is now in a position to provide water to Odessa, Big Spring, Snyder, Midland and Stanton from any of its surface water reservoirs or groundwater well fields.

The District's water system is one of the most flexible raw water delivery systems in the State of Texas. It allows surface water from the Ivie Reservoir, the Spence Reservoir, or Lake Thomas to be blended and delivered to any Member or Customer City. This ability, coupled with the system's available groundwater, allows the District to meet contractual commitments even during adverse conditions such as droughts.

WATER RIGHTS

COLORADO RIVER . . . The District was issued Permit No. 3676A by the Texas Water Commission (now known as the Texas Commission on Environmental Quality or TCEQ) on May 14, 1985. The permit authorized the District to construct a reservoir having the capacity of 554,340 acre-feet with permitted annual yield of 113,000 acre-feet. O.H. Ivie Reservoir, formerly known as the Stacy Reservoir, was completed in March of 1990 and is located approximately 45 miles east of the City of San Angelo. The Cities of Midland, San Angelo and Abilene each have a contractual right to 16.54% of the safe yield of the O. H. Ivie Reservoir (90,700 acre-feet) and each of these entities pay 16.54% (a sum of 49.62%) of the debt service requirements on the Series 1985 Bonds (and the successive Refunding Series), as well as the same percentage of the operations and maintenance expenses of the reservoir.

The District received Permit No. 1394 by the State Board of Water Engineers (now the TCEQ) on October 19, 1946. The permit authorized construction of Lake J. B. Thomas with a capacity of 204,000 acre-feet, and a permitted annual yield of 30,000 acre-feet per year. Water deliveries from Lake Thomas began in 1953.

The District obtained Permit No. 2179 as amended by the Texas Water Commission (now the TCEQ) on September 1, 1965 which authorized the construction of the E. V. Spence Reservoir. This impoundment, located in Coke County, has a capacity of 488,760 acre-feet and a permitted annual yield of 50,000 acre-feet per year. The District began water deliveries from that reservoir in 1969.

With the O. H. Ivie Reservoir supply line facilities in operation, long-range projections indicate that water from the District's available sources of supply will meet the water requirements of the Cities of Midland, San Angelo and Abilene, and the District's contractual commitments, through the year 2070.

MARTIN COUNTY WELL FIELD . . . The District has acquired on a royalty basis the underground water rights of 4,480 surface acres in the southern portion of Martin County. The District currently has 6 producing wells and a gathering system which allows this ground water to supplement the Colorado River supplies for peaking and other purposes. The District is able to produce a total of 2.0 million gallons per day from this source which has an estimated 25,000 recoverable acre-feet of subsurface water.

WARD COUNTY SOUTH WELL FIELD . . . The District has acquired the underground water rights of 11,580 surface acres in Ward County. An estimated 250,000 acre-feet of recoverable water was projected to exist beneath land which was leased from the University of Texas System in May 1969. The lease had an original ten-year period with four ten-year options. The lease also provides that the University of Texas System has the right and option, at the end of the original term of the lease or any ten-year extension thereof, to acquire the District's property in and on the leased land for the unamortized cost of such property and to terminate the lease. To date, this lease has been renewed four times. Despite operating the well field since 1971, static water levels within the field remain high, which points to the continued existence of ample underground water reserves. The District has started discussions with the University of Texas System about acquiring the right to this groundwater on a long term basis or extending the water rights lease. The District is the only entity with facilities in place to transport this groundwater.

In January 2002, a study to evaluate the amount of recoverable water remaining in the Ward County South Well Field was completed. The results of the study indicate that there is approximately 273,700 acre-feet of recoverable water left in the field.

WARD COUNTY NORTH FIELD . . . The District has acquired approximately 12,600 acres of land including groundwater water rights and existing well field infrastructure from Luminant Generation. The estimated recoverable groundwater reserves under this property are approximately 700,000 acre feet. The property was acquired in 2010 and had 18 wells capable of producing 13 million gallons per day. In 2012 the District drilled an additional 21 wells increasing the total well capacity to 59 million gallons per day.

CRMWD RAW WATER PRODUCTION FACILITY . . . In May of 2013, the District completed a 2.0 million gallon per day Raw Water Production Facility (water reclamation plant) in Big Spring. This plant uses treated wastewater effluent from the City of Big Spring as the source of water for a water treatment plant using membrane filtration, reverse osmosis, and advance ultraviolet oxidation for further treatment. The produced water is then blended back into the District's raw water transmission system for delivery to multiple municipal and industrial customers that provide additional treatment as required.

LOCAL SUPPLIES . . . Other sources of District water are well fields and surface water impounding reservoirs owned by the Member Cities from which they derived their water requirements prior to joining the District. For example, the City of Big Spring owns Moss Creek Lake which is used by the District for temporary on-line storage since the yield from the lake is somewhat minimal.

FUTURE WATER SUPPLIES . . . In 1984, the District purchased the surface and water rights beneath 3,200 acres of land located in southern Winkler County. The estimated recoverable groundwater reserves are approximately 110,000 acre-feet. It is anticipated that this source will be developed by the District at some time in the future when the municipal requirements approach the capabilities of existing surface and groundwater reserves.

In August 2000, the District completed a study identifying several locations that have the potential of having significant groundwater reserves. This study was updated in 2013 to include brackish groundwater locations for future desalinization opportunities and other potential freshwater locations. The District purchased the groundwater well field from Luminant Generation in 2010 and entered into a water rights option agreement with University Lands in 2016.

In April 2003, the District completed a study identifying potential uses of wastewater treatment plant effluent and demineralization of higher chloride water. These new water sources would be substituted for water being delivered to industrial customers or upgraded to potable water requirements for municipal use. Sources of higher chloride water included new groundwater supplies and water that is being evaporated from the District's diverted water system.

In August 2003, the Texas State Soil and Water Conservation Board (TSSWCB) received a federal 319-funding grant for a salt cedar control project in the watershed of E.V. Spence Reservoir. The District worked with the TSSWCB and local Soil and Water Conservation Districts to implement this project. Conservative estimates show that 4,000 acre feet of water a year can be recovered for beneficial use with the implementation of this project. This project was followed up with projects to biologically control the growth of salt cedar using beetles.

In July 2004, the District undertook a Regional Water Reclamation Project (Feasibility Study) to evaluate the possibility of recovering treated wastewater effluent from the Cities of Odessa, Big Spring, Snyder and Midland. The results of the feasibility study indicated that approximately 11,400 acre-feet of water per year could be recovered and reused. This is approximately 20% of the water that the District is currently delivering to Odessa, Big Spring, Snyder and Midland. This study led to the construction of the CRMWD Raw Water Production Facility in Big Spring.

In October 2013 the District received and evaluated proposals to acquire additional groundwater supplies. All locations evaluated were within a reasonable distance of the District's raw water system. At this time the District has not taken any action on these proposals.

In May 2016, the District acquired an exploration lease agreement with University Lands on approximately 14,498 acres in Winkler County with the option to add the additional water rights to the District's existing Ward County South Well Field lease. The District is currently evaluating the property to determine the amount of water that could be recovered per year from the property. Preliminary estimates are that there is approximately 2,113,782 acre-feet of groundwater in storage. This option will expire in May of 2019.

In March 2019, the District renewed its water rights lease with University Lands for 12,833.28 acres of land in Ward County and exercised its option for an additional 7,688.4 acres of land in Winkler County (option agreement in 2016) bringing the total amount of acreage under lease with University Lands to 20,521.68 acres. This lease expires on May 31, 2049 with the District having the first option to renew the lease at that time.

In November 2019, the District's consulting groundwater hydrologist estimated the groundwater in place and estimate recoverable groundwater in the District's Ward and Winkler groundwater holding areas as 3,213,857 acre-feet and 2,249,700 acre-feet respectively.

In November 2020, the 2021 Region F Regional Water Plan, prepared under the guidelines established by the Texas Water Development Board shows that the District has adequate water supplies to meet its needs through 2070.

QUALITY OF DISTRICT WATER . . . The District delivers raw water only to its customers. It maintains a fresh water system for the delivery of water to municipal and industrial customers, and a brackish water system for the delivery of water to oil companies for secondary oil recovery purposes. As is the case with most of the surface water supplies in West Texas and in the Southwest, the critical constituent in meeting the State and Federal water quality standards is the chloride content of the water. Currently, the Federal Government specifies a Secondary or "recommended" Standard criteria for chlorides in drinking water of 250 parts per million (ppm). Normally, water impounded in Lake E. V. Spence exceeds this recommended standard and requires dilution with water from Lake J. B. Thomas and other sources.

The District, since 1969, has continued developing a comprehensive program for decreasing the chloride content of the water impounded in the E. V. Spence Reservoir. Several water diversion facilities have been constructed and operated for a number of years; i.e., the normal flow of the Colorado River and some of its tributaries (which are high in total dissolved solids) is diverted from the stream into side storage reservoirs. A portion of this diverted water is sold to oil companies for secondary recover use. The remaining diverted water is allowed to evaporate in reservoirs constructed for that purpose. The result of these efforts is being positively evidenced by the quality of the flood waters flowing into E. V. Spence Reservoir.

DROUGHT CONTINGENCY PLAN . . . The District's current wholesale water supply contracts with its Member Cities and Customer Cities were in place before the State of Texas required entities to develop Drought Contingency Plans and as such the current contract language limits the District's ability to require and enforce specific water conservation measures on its Member Cities and Customer Cities. The contracts do generally state that the District may limit deliveries as necessary and on a share and share alike basis. During the most recent drought in 2012 the District did limit deliveries to all users on a share and share alike basis. New contracts do require entries to develop Water Conservation and Drought Contingency Plans and that the District may require them to implement some stage of the plans.

HISTORICAL AND PROJECTED WATER SYSTEM DATA

TABLE 5 - CURRENT SOURCES OF SUPPLY

Current Sources	Nature of Source	Total Capacity (acre-feet)	Average Annual Inflow or Recharge Rate (acre-feet) ⁽²⁾	Use of Supply ⁽³⁾	Computed Safe Annual Yield ⁽²⁾	
					Per Year (acre-feet)	Per Day (MGD)
E.V. Spence Reservoir ⁽¹⁾	Surface	517,272	65,700	Primary	32,300	29
Lake J.B. Thomas ⁽¹⁾	Surface	200,604	33,100	Primary	8,230	7
O.H. Ivie Reservoir	Surface	554,340	137,400	Primary	65,900	59
Big Spring Raw Water Production Facility	Reuse	1,680	1,680	Primary	1,680	1.5
Martin County Well Field	Ground	25,000	Negligible	Secondary	2,240	2
Ward County South Well Field	Ground	273,000	Negligible	Secondary	17,900	16
Local Supplies	Ground	Not Available	Negligible	Secondary	-	-
Winkler County Well Field	Ground	110,000	Negligible	Secondary	-	-
Ward County North Well Field	Ground	700,000	Negligible	Secondary	33,600	30

- (1) The Texas Water Development Board performed a survey on the lake basins of Lake J.B. Thomas and E.V. Spence Reservoir during October 2000. Total capacity of acre-feet has slightly increased as a result of this survey.
- (2) Average annual inflow and safe annual yield were updated in a study by the District's consulting engineer. "Yields of Lake J.B. Thomas, E.V. Spence Reservoir and O.H. Ivie Reservoir, July 5, 2006."
- (3) Primary source of supply is that portion of supply utilized by the District for the major portion of water sold. Secondary source of supply is that portion of supply utilized for peaking and reserve purposes.

The District has the right to divert from its three surface reservoirs a total of 186,000 acre-feet per annum for purposes as follows: (a) 169,573 acre-feet for municipal use; (b) 4,427 acre-feet for mining use; (c) 12,000 acre-feet for industrial use. In addition, the District has rights to all recoverable ground water under the surface acreage it has leased or owns. One acre-foot equals approximately 325,829 gallons.

TABLE 6 - AVAILABLE RESERVES FOR MUNICIPAL CUSTOMERS

Year	Total Surface Water Diversion Rights (acre-feet) ⁽¹⁾	Total Sales (acre-feet)	Permitted Annual Diversion Not Diverted (acre-feet)	Plus: Ground Water for Reserve and Peaking (acre-feet) ⁽²⁾	Surplus Annual Reserve (acre-feet)
2016	178,000	54,911	111,089	53,740	164,829
2017	178,000	57,483	108,517	53,740	162,257
2018	178,000	64,324	101,676	53,740	155,416
2019	178,000	62,560	103,440	53,740	157,180
2020	178,000	69,676	96,324	53,740	150,064

- (1) The District has permitted rights to withdraw 73,000 acre-feet per annum from Lake J.B. Thomas and E.V. Spence Reservoir, located on the Colorado River. All but 10,000 acre-feet of the 73,000 acre-feet may be used on an annual basis to meet municipal requirements; 8,000 acre-feet is earmarked solely for mining use (secondary recovery of oil) and 2,000 acre-feet is for industrial use. The O.H. Ivie Reservoir, was completed in 1990 and provides an additional 103,000 acre-feet of Municipal and 10,000 acre-feet of Industrial surface water diversion rights to the previous 65,000 acre feet, for a total of 178,000 acre-feet per annum diversion rights.
- (2) Ground water reserve and peaking include Water County North Well Field, Ward County South Well Field, and the Martin City Well Field.

TABLE 7 - CURRENT AND HISTORICAL USE BY SOURCE

The following table shows the District's historical usages from its sources of supply during 2016-2020.

Year	Sources of Supply (Million Gallon Units)				Average Day Usage	Peak Day Usage
	Lake J.B. Thomas	E.V. Spence Reservoir	O.H. Ivie Reservoir	Wells and Other		
2016	3,282	2,614	12,085	1,244	52.5	76.6
2017	5,152	2,591	10,226	673	52.7	77.2
2018	5,335	3,708	11,083	970	63.6	76.6
2019	4,356	3,418	11,770	923	56.1	74.7
2020	4,281	4,167	11,601	3,157	62.4	90.5

TERRITORY SERVED BY THE DISTRICT

LOCATION AND ECONOMY . . . The District's Service Area covers 31,000 square miles in Central West Texas, being an area comprised primarily of the Permian Basin of Texas. The three Member Cities of the District, Odessa, Big Spring and Snyder, along with the City of Midland, a major municipal customer of the District, are the four largest cities within the Permian Basin area. Other municipalities deriving all or a part of their water requirements from the District are Stanton, San Angelo, Rotan, Coahoma, and the City of Abilene. The combined population of these cities, which derive all or a part of their water supply from the District, was estimated to be approximately 515,300 in 2015. Odessa, Midland, Stanton, Big Spring, Coahoma and Abilene are located on Interstate Highway 20. Snyder is located 48 miles northeast of Big Spring on U.S. Highway 180 and U.S. 84. San Angelo is located 85 miles southeast of Big Spring on U.S. Highway 87 and 67.

The Permian Basin produces about 50% of the total crude oil produced in the State of Texas. According to the American Petroleum Institute, total proven recoverable crude oil reserves in the area amount to 5.9 billion barrels, or approximately 50% of the known crude oil reserves in the State. Snyder is the hub of the Canyon Reef Oil Field which ranks second only to the East Texas Field, the largest oil discovery in the United States, in known crude oil reserves.

In addition to substantial production of oil and gas and related petrochemical complexes, there is also significant livestock and agricultural production in the area. The economy of each of the Member Cities and Midland is supported to a large degree by one or more of these industries. The Cities of San Angelo's and Abilene's economy is largely supported by numerous small industries and ranching activity.

The contract with the City of Abilene represents a major addition to the territory served by the District. Abilene is the county seat of Taylor County, located 150 miles west of the City of Fort Worth, with a 2010 U.S. Census population of 117,063. It is the economic, educational, medical and cultural center of this west central Texas area, having a civilian labor force of 55,186.

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WATER SUPPLY CONTRACTS WITH MEMBER CITIES

The District supplies its three Member Cities (Cities of Odessa, Big Spring and Snyder) with water under long-term contracts, initially approved in each case by a majority vote of the City's electorate, and amended, extended and restated as of February 12, 1982, as authorized by applicable statute. The three contracts are substantially identical, with the exception of points of delivery and variation in charges due to the distance from the sources of supply. Some of the provisions embodied in all three contracts are summarized hereunder.

TERM OF CONTRACT . . . Each contract continues in effect until January 1, 2032 or for as long thereafter as any of the Bonds (including the Series 2021 Bonds) and Additional Bonds sold and delivered prior to said date are outstanding and unpaid.

QUANTITY AND QUALITY OF WATER . . . The District agrees to deliver to each Member City all the water it requires for its own use and the customers served by its municipal distribution system. The District's obligation in this respect, however, is limited to the quantity of water it has available in its reservoirs and well fields, having due regard for the equitable interest of the other cities in the impounding reservoirs, pursuant to the permit granting rights to Colorado River water. The District is not required to treat the water in any manner, and any facilities for this purpose must be constructed and operated at each Member City's expense.

CITY WATER SYSTEMS . . . Each Member City maintains ownership of its original source of supply facilities. The District operates and maintains these facilities at the expense of the District and coordinates the operation of such facilities with those facilities owned and operated by the District. Any and all water delivered to a Member City by the District from the City-owned source is received as a part of the contractual deliveries from the District and paid for accordingly.

SOURCE OF CITY PAYMENTS . . . All payments made by each Member City to the District under its water supply contract are to be made from revenues received by the Member City from its waterworks system and not from funds raised or to be raised by taxation and are treated as operating expenses of each Member City's waterworks system having a priority over debt service payments on the revenue bonds of the Member Cities. Each Member City agrees to maintain such water rates and charges as will provide fully for operating expenses, including all payments to the District under the contract, and the debt service requirements of any obligations payable from the revenues of such City's waterworks system.

CHARGES FOR DISTRICT WATER . . . On or before the 15th day of the first month of each fiscal year the District shall estimate for such year its operation and maintenance expenses and all of its debt servicing requirements. The estimate shall be divided into two parts as follows:

- Part I (a) Labor, power, maintenance and all other costs pertaining to the main supply line and main supply line pumping stations.
- (b) Principal and interest payments allocable to bonds issued for main supply lines or main supply line pumping stations, but exclusive of any provisions for reserves.
- Part II (a) Management, office and overhead expenses.
- (b) Cost of water, water production, and power for pumping wells and transmitting through gathering lines.
- (c) Maintenance and operating expenses of well fields, dams, reservoirs, water production facilities and City water supply systems operated by the District.
- (d) Principal and interest payments allocable to bonds issued to provide well fields, dams, reservoirs, production facilities and reserves of every kind required by bond resolutions.
- (e) All costs and other expenses not included under Part I.

PART I One-half of the estimated Part I requirements shall be prorated between the Member Cities so that each City will pay its pro rata share based on the amount of water delivered to the Member City the previous year. The number of gallons is multiplied by the miles from Lake J. B. Thomas to each Member City, and then divided by the total gallon miles for all Member Cities to determine the percentage of expenses allocable to the Member City.

The remaining one-half of Part I shall be apportioned based on the percentage the amount of water delivered to the Member City during the previous year bears to the total amount of water delivered to all Member Cities.

PART II The estimated Part II requirements shall be prorated among the Member Cities so that each Member City will pay its pro rata share in the ratio (percentage) which the amount of water delivered to the Member City during the previous year bears to the total amount of water delivered to all Member Cities. Revenues derived from sources other than Member Cities may, at the option of the District, be applied to reduce Part II payments.

The aggregate of each Member City's apportionment as computed above (after deduction of an amount attributable to a "delivery charge" as described below), constitutes a fixed water charge for the current year, payable by the Member City to the District in equal monthly installments. In addition to the fixed charge, the Member City pays a "delivery charge" per 1,000 gallons for water actually delivered during the current year, offsetting the reduction referred to above. This provision for fixed monthly payments from the Member Cities, regardless of actual current consumption, eliminates seasonal fluctuations in revenues, thus tending to even out the monthly income of the District. The "delivery charge" is an amount equal to the average cost per 1,000 gallons the District paid for electric energy to deliver water to that Member City during the twelve month period ending three months preceding the first day of the fiscal year for which the fixed water charge is being calculated.

WATER SUPPLY CONTRACTS WITH CONTRACT ENTITIES

CITY OF MIDLAND

On April 28, 1966, the City of Midland ("Midland") called a general election to vote on a 60-year water supply contract with the District. The vote was 3,326 in favor of the contract and 56 against. The following is a summary of certain provisions of the contract:

TERM OF CONTRACT . . . The contract continues in effect through the Fiscal Year 2030.

QUANTITY AND QUALITY OF WATER . . . During the Fiscal Years 2001 through 2030:

(1) The District agrees to sell and deliver to Midland at the daily rate requested by Midland the "Contract Quantities" of water set forth below, subject to (a) certain events of force majeure and (b) certain limits on the maximum amount required to be delivered by the District during any one day, and (c) the District's right to prorate its available water between the cities with which it has water supply contracts during a critical water shortage and between the Cities of Odessa and Midland when its pipeline facilities are inadequate.

(2) The District by mutual agreement may sell and deliver to Midland water in excess of the Contract Quantities; and

(3) Midland agrees to purchase water received in excess of such Contract Quantities and to purchase such Contract Quantities, whether or not tendered, delivered or received, except that (a) Midland is not required to pay for the amount of the Contract Quantity not actually tendered and delivered by the District while the District has no bonds outstanding, and (b) during the Fiscal Years 2001 through 2030, Midland shall be allowed certain credits for the amount of the Contract Quantity not actually pumped by the District to the delivery point, and (c) during the Fiscal Years 2001 through 2030, Midland need not purchase or receive the amount of the Contract Quantity exceeding 70% of the total water consumption during the year by Midland and the customers of its water supply system.

The District is not required to treat the water in any manner, and any facilities for this purpose must be constructed and operated at Midland's expense, provided that the water is at least substantially the same in quality as water delivered to the Cities of Odessa or Big Spring pursuant to their water supply contracts with the District.

CITY WATER SYSTEM . . . The City maintains ownership and operation of its municipal waterworks system, separate and apart from facilities owned and operated by the District and does not pay the District for any water derived from Midland's facilities. The District will not sell water to Midland's present or potential customers, except with Midland's express consent.

SOURCE OF CITY PAYMENTS . . . All payments made by Midland to the District under the contract are to be made from the revenues received by Midland from its waterworks system and not from funds raised or to be raised by taxation, and are treated as operation expenses of Midland's waterworks system and as such, have a priority over debt service payments on the revenue bonds of the municipal system. Midland agrees to maintain such water rates and charges as will provide fully for operating expenses, including all payments to the District under the contract and the debt service requirements of any obligations payable from the revenues of Midland's waterworks system.

CHARGES FOR DISTRICT WATER . . . The following table sets forth for each of the respective years (1) the price per 1,000 gallons to be paid by Midland to the District, (2) the basis of payment, bills to be rendered monthly or yearly by the 5th day of the following month or year, respectively, and paid within ten days thereafter, and (3) the credit per 1,000 gallons to be allowed to Midland on the next year's first billings for the amount of the Contract Quantity not actually pumped by the District to the delivery point:

Fiscal Years (Inclusive)	1	2	3
	<u>Price Per 1,000 Gallons</u>	<u>Basis of Payment</u>	<u>Credit Per 1,000 Gallons</u>
2001-2030	City of Odessa Contract Price	Monthly for the Contract Quantity received by City, water received in excess of the Contract Quantity and 5% interest on past due payments.	6.0¢ for the Contract Quantity not pumped to Point of Delivery.

CITY OF STANTON

On January 7, 2020, the City of Stanton ("Stanton") agreed to a 10-year extension to the water supply contract with the District. The following is a summary of certain provisions of the contract:

TERM OF CONTRACT . . . The contract became effective on January 1, 2020 and extends through the calendar year 2029.

QUANTITY AND QUALITY OF WATER . . . The District is not obligated to treat in any manner the water delivered to Stanton from Stanton. Water shall be surface run-off water impounded in the District's Lake J. B. Thomas, E. V. Spence or O.H. Ivie Reservoirs or derived from any other well fields owned and operated by the District. The District agrees to deliver all water required by Stanton for its use and for distribution to all customers served by Stanton's distribution system, up to the contract quantity of 100,000,000 gallons per year.

CITY'S WATER SYSTEM . . . Stanton maintains ownership of its municipal waterworks system. Any water pumped by Stanton from its own system shall be considered water from Stanton's system, and Stanton will not be obligated to pay the District for such water. The District will not sell water to Stanton's present or potential customers except with Stanton's express consent.

SOURCE OF CITY PAYMENTS . . . All payments made by Stanton to the District under the Contract are to be made from the revenue received by Stanton from its waterworks system and not from funds received or to be received by taxation, and are treated as operating expenses of Stanton's waterworks system, and as such, have priority over debt service payments on the revenue bonds of the municipal system. Stanton agrees to maintain such water rates and charges as will provide fully for operating expenses including all payments to the District under the contract and the debt service requirements of any obligations payable from the revenues of Stanton's waterworks system.

CHARGES FOR DISTRICT WATER . . . For any water delivered to Stanton during the term of the contract, Stanton shall pay the District for such water on a monthly basis at a price per 1,000 gallons equal to the sum of (1) the average price per 1,000 gallons actually paid by the City of Odessa to the District during the immediately preceding calendar year, plus (2) 5 cents per 1,000 gallons. Stanton is obligated to pay the District for the full contract quantity whether or not it actually takes water from the District.

CITY OF SAN ANGELO

On May 10, 1969, the City of San Angelo ("San Angelo") called a general election to vote on a 26-year water supply contract with the District. The vote was 3,012 in favor of the contract, and 2,053 against. This contract was renewed in 1997. The following is a summary of certain provisions of the contract:

TERM OF CONTRACT . . . The contract became effective January 1, 1970 and shall continue in force and effect during the entire useful life of the E.V. Spence Reservoir. The City has an option to renew and extend with an annual payment equal to 6% of the operation and maintenance expenses of the E. V. Spence Reservoir and the Mitchell County Diversion Facilities located northwest of Colorado City, Texas.

QUALITY AND QUANTITY OF WATER . . . The District agrees to make water available to San Angelo at the District's Lake E. V. Spence Reservoir in quantities up to approximately 977,553,000 gallons in any one calendar year. The District is not required to divert water nor to deliver water to San Angelo. San Angelo has constructed a pump station and approximately 30 miles of water supply line at its own expense and operates and maintains these facilities at no cost to the District. The District, at its option, may make water available to San Angelo in excess of such contract quantity, in the event San Angelo desires additional water. The District is not required to treat the water in any manner nor is it responsible for the quality of the water contained in Lake E. V. Spence.

CITY'S WATER SYSTEM . . . San Angelo maintains, owns and operates its municipal waterworks system, its pump station at Lake E. V. Spence, and its water transmission line from Lake E. V. Spence to San Angelo. The District will not sell water to San Angelo's present or potential customers except with San Angelo's express consent.

SOURCE OF PAYMENTS . . . All payments made by San Angelo to the District under the contract are to be made from the revenues received by San Angelo from its waterworks system and not from funds received or to be raised by taxation. Such payments are treated as operating expenses of San Angelo's waterworks system, and as such, have priority over debt service payments on the outstanding revenue bonds of the municipal system. San Angelo agrees to maintain such water rates and charges as will fully provide for operating expenses, including all payments to the District under the contract, and the debt service requirements of any obligations payable from the revenues of San Angelo's waterworks system.

CHARGES FOR DISTRICT WATER . . . San Angelo shall pay annually to the District \$76,440 whether or not San Angelo diverts any water from Lake E. V. Spence. For any water diverted over and above approximately 977,553,000 gallons per calendar year, San Angelo shall pay the District the cost per 1,000 gallons as calculated in Part II of the Member Cities Water Rate Formula during the preceding calendar year.

MILLERSVIEW-DOOLE WATER SUPPLY CORPORATION

On July 9, 2001, the Millersview-Doole Water Supply Corporation (the "Corporation") called a vote on a 40-year water supply contract with the District. The vote was 490 in favor of the contract and 10 against the contract. The following is a summary of certain provisions of the contract:

TERM OF CONTRACT . . . The contract became effective on September 1, 2001, and extends through September 1, 2044.

QUANTITY AND QUALITY OF WATER . . . The District is not obligated to treat in any manner the water delivered to the Corporation. Water shall be made available from the surface run-off water of the O.H. Ivie Reservoir or derived from any other water impounded from within or without the drainage area of the Colorado River operated by the District. The District agrees to deliver all water required by the Corporation for its use and for distribution to all customers served by the Corporation's distribution system, up to 358 million gallons (1,100 acre-feet) per year. The District may make quantities available, at its option, in excess of the contract quantity in the event the Corporation requires additional water.

CORPORATION'S WATER SYSTEM . . . The Corporation maintains ownership of its water system. Any water pumped by the Corporation from its own system shall be considered water from the Corporation's system, and the Corporation will not be obligated to pay the District for such water. The District will not sell water to the Corporation's present or potential customers except with the Corporation's express consent.

SOURCE OF CORPORATION PAYMENTS . . . All payments made by the Corporation to the District under the contract are to be made from the revenue received by the Corporation from its water system and not from funds received, or to be received, from taxation. Such payments are treated as operating expenses of the Corporation's water system, and as such, have priority over debt service payments on the revenue bonds of the municipal system. The Corporation agrees to maintain such water rates and charges as will provide fully for operating expenses, including all payments to the District under the contract.

CHARGES FOR DISTRICT WATER . . . The Corporation is obligated to pay for the full contract quantity of water on an annual basis regardless of whether it actually takes water or not. The Corporation shall pay the District 1/12 of the contract quantity on a monthly basis at a price per 1,000 gallons equal to the sum of (1) Part II of the Member Cities Water Rate Formula calculated during the preceding Fiscal Year (adjusted annually, plus (2) 22 cents per 1,000 gallons.

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**WATER SUPPLY FACILITIES AND SERVICES CONTRACTS
WITH THE CITIES OF MIDLAND SAN ANGELO, TEXAS, AND
WEST CENTRAL TEXAS MUNICIPAL WATER DISTRICT (CITY OF ABILENE)
RELATIVE TO THE O. H. IVIE RESERVOIR PROJECT**

In addition to the contracts between the District and its Member Cities of Odessa, Big Spring and Snyder and its four Contract Cities of Midland, San Angelo, Stanton and Millersview-Doole Water Supply Corporation, elections were held on August 10, 1985 in the cities of Midland, Abilene and San Angelo to authorize *separate* contracts to be executed with the District relative to the construction and operation of the Stacy Reservoir Project (renamed and now known as the O. H. Ivie Reservoir). The contracts were authorized by a vote of 97% "for" to 3% "against." Reference should be made to each separate contract for a full and complete statement of its provisions.

Contracts between the District and the cities of Midland and San Angelo were executed as of September 1, 1985; and a similar contract was executed as of the same date with West Central Texas Municipal Water District ("West Central") for the sole use and benefit of the City of Abilene. Concurrently, West Central executed a contract with the City of Abilene, dated September 1, 1985, pertaining to the water to be diverted from O. H. Ivie Reservoir for the sole use and benefit of the City. With the consent of the District, the Abilene-West Central contract was assigned in all respects from West Central to the City of Abilene. Thereafter the obligation to make all payments thereunder became obligations solely of the City of Abilene and West Central has no obligation thereunder

The contracts referred to above are substantially identical with the exception of points of delivery. The contracts are summarized as follows:

TERM OF CONTRACT . . . Each contract is dated September 1, 1985, and shall continue in force and effect until the principal of and interest on all District Bonds relating to the O.H. Ivie Reservoir shall have been paid, and thereafter shall continue in force and effect during the entire useful life of the Reservoir. On January 1, 2016, all District Bonds relating to the O.H. Ivie Reservoir were defeased and are no longer outstanding.

QUANTITY AND QUALITY OF WATER . . . The District agrees that said cities and West Central shall have the right to take and withdraw from O. H. Ivie Reservoir at a point of delivery specified in the contracts, the "Contract Quantity", defined to be 4,888,345 gallons (15,001.78 acre-feet) per year, subject to the availability of water and the maximum capacity of the facilities for diverting and transporting water from the reservoir. The District shall not be obligated to divert, transport, or treat in any manner any water made available to said cities and West Central.

PRICE AND TERMS . . . In consideration of the District's undertaking to construct the Ivie Reservoir and make available the Contract Quantity as set forth above, the cities of Midland, San Angelo and Abilene each agree to pay to the District semiannually on or before the 20th day of June and the 20th day of December of each year, a sum equal to 16.54% of the principal and/or interest on the related bonds maturing and payable on each January 1 and July 1; and on or before November 1 of each year, each city will pay one-half (50%) of its budgeted pro rata share (16.54%) of the District's annual cost of the administrative and maintenance expenses related to the O. H. Ivie Reservoir for the ensuing fiscal year and the balance of its pro rata share for the just completed fiscal year.

SOURCE OF PAYMENTS . . . All payments by the cities of Midland, San Angelo and Abilene to the District are to be made solely from revenues received by said entities from the operation of their combined water and sewer system and/or derived from other lawfully available funds. District shall never have the right to demand payment from any funds raised or to be raised from taxation.

RATES AND CHARGES . . . Each of said cities has agreed throughout the terms of the contracts to continuously operate and maintain their combined water and sewer systems and to fix and collect such rates and charges as will produce revenues in amounts equal to at least (i) all of the expenses of operation and maintenance of such systems, including specifically payments under the contract, and (ii) other amounts as required by law and the provisions of the Resolution or resolutions authorizing revenue bonds or other obligations now outstanding, including the amounts required to pay all principal of and interest on such bonds and other obligations.

UNCONDITIONAL OBLIGATION TO MAKE PAYMENTS . . . Recognizing the fact that the District will use the payments received under the contracts to pay and secure its bonds, it is agreed that the cities of Midland and San Angelo and Abilene shall be unconditionally obligated to pay, without offset or counterclaim, all of its payments to the District as provided and determined by the contract, regardless of whether or not the District actually acquires, completes or constructs the O. H. Ivie Reservoir Project, or whether the Cities actually uses water from the Project, whether due to Force Majeure or any reason whatsoever, and regardless of any other provisions of the contracts or any other agreement between the parties hereto. The cities (Midland, San Angelo and Abilene) are, therefore, unconditionally obligated to the payment of 49.62% of the cost of the O. H. Ivie Project and the operation and maintenance thereof.

Note: The balance of the principal and interest and the maintenance and operation expenses of the O. H. Ivie Reservoir Project (50.38%) will be paid by the District from revenues derived from its three Member Cities and other water customers.

WATER SUPPLY CONTRACTS WITH OIL PRODUCERS

The District is presently delivering water for secondary recovery of liquid hydrocarbons under long term contracts with oil operators in Scurry, Howard and Coke Counties, Texas. The contracts' terms are for three year periods. The District agrees to furnish each operating unit's requirements up to a specified number of million gallons daily, termed the "Contract Quantity," subject, however, to the availability of water in excess of the requirements of the municipalities served by the District and prior contractual commitments to others. The oil operators are billed monthly. It is also provided that water may be purchased in excess of the contract quantity, at the discretion of the District.

CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following is a summary of certain provisions of the Resolution and is not intended to be a complete description of all the provisions of the Resolution.

Section 8. DEFINITIONS. As used in this Resolution the following terms shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

The term "Additional Bonds" shall mean the additional parity revenue bonds permitted to be authorized in the future in this Resolution.

The term "Board" shall mean the Board of Directors of the Issuer, being the governing body of the Issuer, and it is further resolved that the declarations and covenants of the Issuer contained in this Resolution are made by, and for and on behalf of the Board and the Issuer, and are binding upon the Board and the Issuer for all purposes.

The terms "Bond Resolution" and "Resolution" mean this resolution authorizing the Series 2021 Bonds.

The term "Bonds" means collectively the Series 2010 Bonds, the Series 2010A Bonds, the Series 2017 Bonds, and the Series 2021 Bonds.

The term "Contracts" shall mean collectively: (a) the water supply contracts between the Issuer and each of the Member Cities, respectively, each of which initially was entered into as of February 23, 1951, and which were authorized at elections held in Big Spring and in Odessa on November 16, 1950, and in Snyder on January 27, 1951, as each of such water supply contracts was amended, updated, extended, and restated in its entirety as of February 12, 1982, (b) the water supply contract between the Issuer and the City of Midland, Texas, authorized at an election held in Midland on April 28, 1966, (c) the water supply contract between the Issuer and the City of Stanton, Texas, authorized at an election held in Stanton on May 16, 1967, (d) the water supply contract between the Issuer and the City of San Angelo, Texas, authorized at an election held in San Angelo on May 10, 1969, (e) the three separate Water Supply Facilities and Services Contracts, each dated as of September 1, 1985, between the Issuer and the Cities of Midland and San Angelo, Texas, and the West Central Texas Municipal Water District (which has been assigned in all respects to the City of Abilene, Texas), respectively, in connection with O. H. Ivie Reservoir (formerly known as Stacy Reservoir), (f) the Stacy Reservoir Water Transmission Contract entered into as of June 29, 1988, by and between the Issuer and the Cities of Midland and San Angelo, Texas, in connection with transporting water from Stacy Reservoir (now renamed and known as O. H. Ivie Reservoir) to the District and said Cities, (g) the water supply contract between the Issuer and Millersview-Doole Water Supply Corporation, authorized at an election held on July 9, 2001, within the boundaries of such corporation, and (h) all water supply contracts heretofore or hereafter executed between the Issuer and other cities and customers in connection with the Issuer's Water System.

The terms "District" and "Issuer" shall mean Colorado River Municipal Water District.

The terms "Gross Revenues of the System" and "Gross Revenues" shall mean all of the revenues, income, rentals, rates, fees, and charges of every nature derived by the Board or the Issuer from the operation and/or ownership of the System, including all payments and amounts received from the Contracts and from sales of water, and all investment interest and income from any Fund created by this Resolution, and any excess Pledged Revenues in the Revenue Fund which may be retained therein at the end of any fiscal year pursuant to Section 19(b) hereof and specifically committed by the Issuer to constitute Gross Revenues of the System for the ensuing fiscal year. Said terms also mean and include any other revenues or income of the Issuer which, at the option of the Issuer, are at any time credited to the Revenue Fund, hereinafter created, and committed by the Issuer to constitute Gross Revenues.

The terms "Issuer's Water System" and "System" shall mean all of the Issuer's existing water storage, treatment, transportation, distribution, and supply facilities, including all well fields, dams, reservoirs, and other properties, which heretofore have been acquired or constructed with the proceeds from the sale of all bonds or other obligations ever issued by the Issuer which have been payable from or secured by a lien on or pledge of any part of the "Net Revenues of the System", or with revenues from said System, together with all future improvements, enlargements, extensions, and additions to any of the foregoing (and all future new facilities) acquired or constructed with the proceeds from the sale of the Bonds and any Additional Bonds or with money from the Contingency Fund (hereinafter described) or any water supply facilities which are deliberately and specifically, at the option of the Board, made a part of the System by resolution of the Board, and all repairs to or replacements of the System. Said terms do not include any Issuer facilities which provide waste treatment or other wastewater services of any kind. Said terms do not include any facilities acquired or constructed by the Issuer with any proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being revenue obligations of the Issuer which are not issued as Additional Bonds, and which are payable from any source, contract, or revenues whatsoever other than the Pledged Revenues; and Special Facilities Bonds may be issued for any lawful purpose and made payable from any source, contract, or revenues whatsoever other than the Pledged Revenues.

The term "Member Cities" shall mean collectively the Cities of Big Spring, Odessa, and Snyder, Texas, together with all cities which hereafter may become Member Cities as provided in the District Act.

The terms "Net Revenues of the Issuer's Water System", "Net Revenues of the System", and "Net Revenues" shall mean the Gross Revenues of the System less the Operation and Maintenance Expenses of the System.

The terms "Operation and Maintenance Expenses of the System" and "Current Expenses" shall mean all reasonable and necessary current costs of operation and maintenance of the System including, but not limited to, repairs, operating personnel, the cost of utilities, supervision, engineering, accounting, auditing, legal services, insurance premiums, paying agents fees, and any other supplies, services, administrative costs, and equipment necessary for proper operation and maintenance of the System, payments made for the use or operation of any property, and payments made by Issuer in satisfaction of judgments or other liabilities resulting from claims not covered by Issuer's insurance. Depreciation shall not be considered an item of Operation and Maintenance Expense.

The term "Pledged Revenues" shall mean: (a) the Net Revenues of the System and (b) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which in the future may, at the option of the Issuer, be pledged to the payment of the Bonds or the Additional Bonds.

The term "Series 2010 Bond Resolution" means the resolution adopted by the Board of Directors of the Issuer on December 30, 2009, authorizing the Series 2010 Refunding Bonds.

The term "Series 2010 Bonds" means the unpaid and unrefunded bonds of that issue of Colorado River Municipal Water District Water System Revenue Refunding Bonds, Series 2010, dated May 1, 2010, which will be outstanding after the issuance and delivery of the Series 2021 Bonds.

The term "Series 2010A Bond Resolution" means the resolution adopted by the Board of Directors of the Issuer on February 10, 2010, authorizing the Series 2010A Refunding Bonds.

The term "Series 2010A Bonds" means the unpaid and unrefunded bonds of that issue of Colorado River Municipal Water District Water System Revenue Refunding Bonds, Series 2010A dated November 1, 2010, which will be outstanding after the issuance and delivery of the Series 2021 Bonds.

The term "Series 2017 Bond Resolution" means the resolution adopted by the Board of Directors of the Issuer on November 15, 2017, authorizing the Series 2017 Bonds.

The term "Series 2017 Bonds" means the unpaid and unrefunded bonds of that issue of Colorado River Municipal Water District Water System Revenue Refunding Bonds, Series 2017, dated November 1, 2017, which will be outstanding after the issuance and delivery of the Series 2017 Bonds.

The term "Series 2021 Bonds" means collectively the Initial Bond as described and defined in Sections 1, 2, and 3 of this Resolution, and all substitute bonds exchanged therefor and all other substitute and replacement bonds issued pursuant to this Resolution as provided in this Resolution.

The terms "year" and "fiscal year" shall mean the Issuer's fiscal year, which initially shall be the calendar year, but which subsequently may be any other 12 month period hereafter established by the Issuer as a fiscal year for the purposes of the System and this Resolution.

Section 9. PLEDGE. (a) The Series 2021 Bonds authorized by this Resolution are hereby designated as, and shall be, "Additional Bonds" as permitted by Sections 22 and 23 of the Series 2010 Bond Resolution, the Series 2010A Bond Resolution, and the Series 2017 Refunding Bond Resolution and it is hereby determined, declared, and resolved that all of the Bonds collectively, as defined above, are and shall be secured and payable equally and ratably on a parity, and that Sections 8 through 26 of this Resolution are supplemental to and cumulative of Sections 8 through 26 of the Series 2010 Bond Resolution, the Series 2010A Bond Resolution, and the Series 2017 Refunding Bond Resolution with Sections 8 through 26 of this Resolution being equally applicable to all of the Bonds.

(b) The Bonds and any Additional Bonds, and the interest thereon, are and shall be secured by and payable from a first lien on and pledge of the Pledged Revenues, and the Pledged Revenues are further pledged to the establishment and maintenance of the Interest and Redemption Fund, the Reserve Fund, and the Contingency Fund as provided in this Resolution.

Section 10. REVENUE FUND. There has been created and established and there shall be maintained on the books of the Issuer, and accounted for separate and apart from all other funds of the Issuer, a special fund to be entitled the "Colorado River Municipal Water District Water System Revenue Bonds Revenue Fund" (hereinafter called the "Revenue Fund"). All Gross Revenues of the System (except investment interest and income of the Interest and Redemption Fund, the Reserve Fund, and the Contingency Fund maintained pursuant to this Resolution) shall be credited to the Revenue Fund immediately upon receipt. All Operation and Maintenance Expenses of the System shall be paid from such Gross Revenues credited to the Revenue Fund, as a first charge against same.

Section 11. INTEREST AND REDEMPTION FUND. For the sole purpose of paying the principal of and interest on all Bonds and any Additional Bonds, as the same come due, there has been created and established and there shall be maintained at any depository bank or banks of the Issuer a separate fund to be entitled the "Colorado River Municipal Water District Water System Revenue Bonds Interest and Redemption Fund" (hereinafter called the "Interest and Redemption Fund").

Section 12. RESERVE FUND. There has been created and established and there shall be maintained at any depository bank or banks of the Issuer a separate fund to be entitled the "Colorado River Municipal Water District Water System Revenue Bonds Reserve Fund" (hereinafter called the "Reserve Fund"). The Reserve Fund shall be used solely for the purpose of finally retiring the last of any Bonds or Additional Bonds, or for paying principal of and interest on any Bonds or Additional Bonds when and to the extent the amounts in the Interest and Redemption Fund are insufficient for such purpose.

Section 13. CONTINGENCY AND IMPROVEMENT FUND. There has been created and established and there shall be maintained at any depository bank or banks of the Issuer a separate fund to be entitled the "Colorado River Municipal Water District Water System Revenue Bonds Contingency and Improvement Fund" (hereinafter called the "Contingency Fund"). Subject to the provisions of Section 18 hereof, the Contingency Fund shall be used solely for the purpose of (i) paying the costs of improvements, enlargements, extensions, additions, or other capital expenditures relating to the System, (ii) paying Operation and Maintenance Expenses of the System for which System funds are not otherwise available, (iii) redeeming Bonds or Additional Bonds prior to maturity to the extent they are subject to such redemption from such source, or (iv) purchasing and canceling Bonds or Additional Bonds in the open market.

Section 14. DEPOSITS OF PLEDGED REVENUES; INVESTMENTS, (a) The Pledged Revenues shall be deposited into the Interest and Redemption Fund, the Reserve Fund, and the Contingency Fund when and as required by this Resolution.

(b) Money in any Fund maintained pursuant to this Resolution may, at the option of the Issuer, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; 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. Such investments shall be valued by the Issuer in terms of current market value as of the 20th day of December of each year. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, and surpluses in any Fund shall or may be disposed of as hereinafter provided. Such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds or Additional Bonds.

Section 15. FUNDS SECURED. Money in all Funds maintained pursuant to this Resolution, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the Issuer.

Section 16. DEBT SERVICE REQUIREMENTS. (a) Promptly after the delivery of the Initial Bond the Issuer shall cause to be deposited to the credit of the Interest and Redemption Fund any accrued interest received from the sale and delivery of the Initial Bond, and any such deposit shall be used to pay part of the interest coming due on the Bonds.

(b) The Issuer shall transfer from the Pledged Revenues and deposit to the credit of the Interest and Redemption Fund the amounts, at the times, as follows:

- (1) such amounts, deposited semiannually on or before the 25th day of each December and June hereafter, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Redemption Fund and available for such purpose, to pay the interest scheduled to accrue and come due on the Bonds and any Additional Bonds on the next succeeding interest payment date; and
- (2) such amounts, deposited annually on or before the 25th day of each December hereafter, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Redemption Fund and available for such purpose, to pay the principal scheduled to mature and come due on the Bonds and any Additional Bonds on the next succeeding principal payment date.

Section 17. RESERVE FUND REQUIREMENTS. The Reserve Fund now contains an amount of money and/or investments at least equal in market value to the average annual principal and interest requirements of all of the Bonds. When and so long as the money and investments in the Reserve Fund are not less than an amount in market value equal to the average annual principal and interest requirements of all then outstanding Bonds (the "Required Amount"), no deposits shall be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Amount, then, subject and subordinate to making the required deposits to the credit of the Interest and Redemption Fund, the Issuer shall transfer from Pledged Revenues and deposit to the credit of the Reserve Fund, annually on or before the 25th day of December of each year, a sum equal to 1/5th

of the Required Amount until the Reserve Fund is restored to the Required Amount. The Issuer specifically covenants that it will, annually on or before the 25th day of December of each year, deposit any surplus in the Reserve Fund over the Required Amount to the credit of the Interest and Redemption Fund.

Section 18. CONTINGENCY FUND REQUIREMENTS. The Contingency Fund now contains an amount of money and/or investments equal in market value to at least \$1,500,000. If and when the Contingency Fund is reduced or depleted to an amount of money and investments in market value less than \$1,500,000, then, subject and subordinate to making the required deposits to the credit of the Interest and Redemption Fund and the Reserve Fund, such reduction or depletion shall be restored to said amount of \$1,500,000 from sums which shall be provided from Pledged Revenues for such purpose in the Issuer's Annual Budget for the next ensuing year or years; provided that the Issuer is not required to budget more than \$200,000 for such purpose during any one fiscal year. So long as the Contingency Fund contains an amount of money and investments in market value not less than \$1,500,000, any surplus in the Contingency Fund over said amount may, upon a favorable and affirmative vote of a majority of the Directors on the Board, be withdrawn and used by the Issuer for any lawful purpose.

Section 19. DEFICIENCIES; EXCESS PLEDGED REVENUES. (a) If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits into the Interest and Redemption Fund, the Reserve Fund, and the Contingency Fund, then such deficiency shall be made up as soon as possible from the next available Pledged Revenues, or from any other sources available for such purpose.

(b) Subject to making the required deposits to the credit of the Interest and Redemption Fund, the Reserve Fund, and the Contingency Fund, when and as required by this Resolution, or any resolution authorizing the issuance of Additional Bonds, the excess Pledged Revenues in the Revenue Fund shall, after retaining in the Revenue Fund at all times an amount estimated to be sufficient to pay the Operation and Maintenance Expenses of the System for the next succeeding month, be used to pay all debt service, reserve, and other requirements in connection with any outstanding subordinate lien revenue bonds payable from Pledged Revenues, and all or any remaining part of such excess Pledged Revenues shall be deposited to the credit of the Contingency Fund, provided, however, that, upon a favorable and affirmative vote of not less than three-fourths of all Directors on the Board, all or any remaining part of such excess Pledged Revenues may be used for any other lawful purpose, including, without limitation, the commitment thereof to constitute Gross Revenues of the System for the ensuing fiscal year, as permitted under the definition of Gross Revenues of the System in Section 8 hereof.

Section 20. PAYMENT OF BONDS AND ADDITIONAL BONDS. Semiannually on or before the first day of each January and of each July hereafter while any of the Bonds or Additional Bonds are outstanding and unpaid, the Issuer shall make available to the paying agents therefor, out of the Interest and Redemption Fund or the Reserve Fund, in that order, if necessary, money sufficient and available to pay such interest on and such principal of the Bonds and Additional Bonds as will accrue or mature on each such January 1 or July 1. The paying agents shall cancel all paid Bonds and Additional Bonds, and furnish the Issuer with an appropriate certificate of cancellation.

Section 21. FINAL DEPOSITS: GOVERNMENTAL OBLIGATIONS. (a) Any Bond or Additional Bond shall be deemed to be paid, retired, and no longer outstanding within the meaning of this Resolution when payment of the principal of, redemption premium, if any, on such Bond or Additional Bond, plus interest thereon to the due date thereof (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 by irrevocably depositing with, or making available to, a paying agent therefor, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, as hereinafter defined in this Section, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such paying agent pertaining to the Bonds and Additional Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of such paying agent. At such time as a Bond or Additional Bond shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefits of this Resolution or a lien on and pledge of the Pledged Revenues, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with a paying agent may at the direction of the Issuer also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the paying agent pursuant to this Section which is not required for the payment of the Bonds and Additional Bonds, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Issuer or deposited as directed by the Issuer.

(c) The Issuer covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the Series 2021 Bonds or any Additional Bonds to be treated as arbitrage bonds within the meaning of Section 103(c)(2) of the Internal Revenue Code of 1954, as amended, or Section 148 of the Internal Revenue Code of 1986, as amended, as applicable.

(d) For the purpose of this Section, the term "Government Obligations" shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

(e) Notwithstanding any other provisions of this Resolution, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of Bonds and Additional Bonds, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such Bonds and Additional Bonds, the redemption premium, if any, and interest thereon.

(f) Notwithstanding the foregoing, the Issuer covenants that with respect to the Bonds it will provide a Paying Agent/Registrar to perform the services thereof provided for by this Resolution the same as if they had not been defeased, and the Issuer shall make proper arrangements to provide and pay for such services.

Section 22. ADDITIONAL BONDS. (a) The Issuer shall have the right and power at any time and from time to time, and in one or more Series or issues, to authorize, issue and deliver additional parity revenue bonds (herein called "Additional Bonds"), in accordance with law, in any amounts, for any lawful purpose related to the System, including the refunding of any Bonds or Additional Bonds. Such Additional Bonds, if and when authorized, issued, and delivered in accordance with this Resolution, shall be secured by and made payable equally and ratably on a parity with the Bonds, and all other outstanding Additional Bonds, from an irrevocable first lien on and pledge of the Pledged Revenues.

(b) The Interest and Redemption Fund and the Reserve Fund established by this Resolution shall secure and be used to pay all Additional Bonds as well as the Bonds. However, each resolution under which Additional Bonds are issued shall provide and require that, in addition to the amounts required by the provisions of this Resolution and the provisions of any other resolution or resolutions authorizing Additional Bonds to be deposited to the credit of the Interest and Redemption Fund, the Issuer shall deposit to the credit of the Interest and Redemption Fund at least such amounts as are required for the payment of all principal of and interest on said Additional Bonds then being issued, as the same come due; and that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be increased (if and to the extent necessary) to an amount of money and/or investments equal in market value to the average annual principal and interest requirements of all Bonds and Additional Bonds which will be outstanding after the issuance and delivery of the then proposed Additional Bonds; and that the required additional amount shall be so accumulated by the deposit in the Reserve Fund of all or any part of said required additional amount in cash immediately after the delivery of the then proposed Additional Bonds, or, at the option of the Issuer, by the deposit of said required additional amount (or any balance of said required additional amount not deposited in cash as permitted above) in annual installments, made on or before the 25th day of each December following the delivery of the then proposed Additional Bonds, of not less than 1/5th of said required additional amount (or 1/5th of the balance of said required additional amount not deposited in cash as permitted above).

(c) All calculations of average annual principal and interest requirements made pursuant to this Section shall be made as of and from the date of the Additional Bonds then proposed to be issued.

(d) The principal of all Additional Bonds must be scheduled to be paid or mature on January 1 of the years in which such principal is scheduled to be paid or mature; and all interest thereon must be payable on January 1 and July 1.

Section 23. FURTHER REQUIREMENTS FOR ADDITIONAL BONDS. Additional Bonds shall be issued only in accordance with this Resolution, but notwithstanding any provisions of this Resolution to the contrary, no installment, series, or issue of Additional Bonds shall be issued or delivered unless (a) the President and the Vice President/Secretary of the Board sign a written certificate to the effect that the Issuer is not in default as to any covenant, condition, or obligation in connection with all outstanding Bonds and Additional Bonds, and the resolutions authorizing the same, and that the Interest and Redemption Fund and the Reserve Fund each contains the amount then required to be therein, and (b) an independent certified public accountant, or independent firm of certified public accountants, executes a certificate or report to the effect that, in his or its opinion the Pledged Revenues, for the last completed fiscal year of the Issuer or for any twelve month period ending not more than ninety days prior to the adoption of the resolution authorizing such proposed Additional Bonds, were at least equal to 1.10 times the average annual principal and interest requirements of all Bonds and Additional Bonds which were outstanding during such period, and (c) an independent registered professional engineer of the State of Texas or a firm of such engineers executes a certificate or report to the effect that in his or its opinion the Pledged Revenues in each fiscal year thereafter, commencing (i) with the third complete fiscal year following the execution of such certificate or report, or (ii) with the fiscal year following the estimated date of completion of any project for which the then proposed Additional Bonds are being issued (whichever of (i) or (ii) is later) will be at least equal to 1.10 times the average annual principal and interest requirements of all Bonds and Additional Bonds to be outstanding after the delivery of the then proposed Additional Bonds. In calculating Pledged Revenues for the purpose of this Section there shall be included in Gross Revenues, from which Pledged Revenues are obtained, all excess Pledged Revenues retained or estimated to be retained in the Revenue Fund and committed to constitute Gross Revenues as permitted in Section 19(b) hereof.

Section 24. GENERAL COVENANTS. The Issuer further covenants and agrees that:

- (a) **PERFORMANCE.** It will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Resolution and each resolution authorizing the issuance of Additional Bonds, and in each and every Bond and Additional Bond; that it will promptly pay or cause to be paid the principal of and interest on every Bond and Additional Bond, on the dates and in the places and manner prescribed in such resolutions and Bonds or Additional Bonds; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Interest and Redemption Fund, the Reserve Fund, and the Contingency Fund; and any owner of the Bonds or Additional Bonds may require the Issuer, its Board, and its officials and employees, to carry out, respect, or enforce the covenants and obligations of this Resolution or any resolution authorizing the issuance of Additional Bonds, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the Issuer, its Board, and its officials and employees.
- (b) **ISSUER'S LEGAL AUTHORITY.** It is a duly created and existing conservation and reclamation district of the State of Texas pursuant to Article 16, Section 59, of the Texas Constitution, and the District Act, and is duly authorized under the laws of the State of Texas to create and issue the Bonds; that all action on its part for the creation and issuance of the Bonds has been duly and effectively taken, and that the Bonds in the hands of the owners thereof are and will be valid and enforceable special obligations of the Issuer in accordance with their terms.
- (c) **TITLE.** It has or will obtain lawful title to, or the lawful right to use and operate, the lands, buildings, and facilities constituting the System, that it warrants that it will defend the title to or lawful right to use and operate, all of the aforesaid lands, buildings, and facilities, and every part thereof, for the benefit of the owners of the Bonds and Additional Bonds against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Pledged Revenues to the payment of the Bonds and Additional Bonds in the manner prescribed herein, and has lawfully exercised such rights.
- (d) **LIENS.** It will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, or the System, 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 thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and that it will not create or suffer to be created any mechanic's, laborer's, materialman's, or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided, however, that no such tax, assessment, or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's, or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the Issuer.
- (e) **OPERATION OF THE SYSTEM.** While the Bonds or any Additional Bonds are outstanding and unpaid it will cause the System to be continuously and efficiently operated and maintained in good condition, repair, and working order, and at a reasonable cost.
- (f) **FURTHER ENCUMBRANCE.** While the Bonds or any Additional Bonds are outstanding and unpaid, it will not additionally encumber the Pledged Revenues in any manner, except as permitted in this Resolution in connection with Additional Bonds, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of this Resolution and any resolution authorizing the issuance of Additional Bonds; but the right of the Issuer and the Board to issue revenue bonds for any lawful purpose payable from a subordinate lien on the Pledged Revenues is specifically recognized and retained.
- (g) **SALE OF PROPERTY.** While the Bonds or any Additional Bonds are outstanding and unpaid, it will maintain its current legal corporate status as a conservation and reclamation district, and it will not sell, convey, mortgage, or in any manner transfer title to, or lease or otherwise dispose of the entire System, or any significant or substantial part thereof; provided that whenever the Issuer deems it necessary to dispose of any such property, machinery, fixtures, or equipment, it may sell or otherwise dispose of such property, machinery, fixtures, or equipment when it has made arrangements to replace the same or provide substitutes therefor, unless it is determined by resolution of the Board that no such replacement or substitute is necessary. All proceeds from any such sales shall be deposited in the Revenue Fund.
- (h) **INSURANCE.** (1) It will cause to be insured such parts of the System 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 fire and extended coverage insurance. Public liability and property damage insurance shall also be carried unless the general counsel for the Issuer, or the Attorney General of Texas, gives a written opinion to the effect that the Issuer, the Board, and its officers and employees, are not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the Issuer shall not be required to carry insurance on the works being constructed, if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the owners of the Bonds and Additional Bonds and their representatives at all reasonable times.

(2) 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 System shall be used promptly as follows:

(a) for the redemption prior to maturity of the Bonds and Additional Bonds, if any, ratably in the proportion that the outstanding principal of each Series or issue of Bonds or Additional Bonds bears to the total outstanding principal of all Bonds and Additional Bonds; provided that if on any such occasion the principal of any such Series or issue is not subject to redemption, it shall not be regarded as outstanding in making the foregoing computation; or

(b) if none of the outstanding Bonds or Additional Bonds is subject to redemption, then for the purchase on the open market and retirement of said Bonds and Additional Bonds, in the same proportion as prescribed in the foregoing clause (a), to the extent practicable; provided that the purchase price for any such Bond or Additional Bond shall not exceed the redemption price of such Bond or Additional Bond on the first date upon which it becomes subject to redemption; or

(c) to the extent that the foregoing clauses (a) and (b) cannot be complied with at the time, the insurance proceeds, or the remainder thereof, shall be deposited in a special and separate trust fund, at an official depository of the Issuer, to be designated the Insurance Account. The Insurance Account shall be held until such time as the foregoing clauses (a) and/or (b) can be complied with, or until other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required, whichever of said events occurs first.

(3) The annual audit hereinafter required shall contain a statement as to whether or not the requirements of this Section with respect to insurance have been met, and whether or not the premiums upon such policies have been paid.

(i) **RATE COVENANT.** It will fix, establish, maintain, revise (if and when necessary), and collect such rates, charges, and fees for the sale of water from the System and for the use and availability of the System as are necessary to produce Gross Revenues of the System sufficient, together with any other Pledged Revenues, (1) to pay all Operation and Maintenance Expenses of the System, and (2) to produce Pledged Revenues for each fiscal year at least equal to 1.10 times the payments and deposits required to be made into the Interest and Redemption Fund and the Reserve Fund during each such year by this Resolution and any resolution authorizing the issuance of Additional Bonds.

(j) **RECORDS.** It will keep proper books of records and account in which full, true, and correct entries will be made of all dealings, activities, and transactions relating to the System, the Pledged Revenues, and all Funds maintained pursuant to this Resolution; and all books, documents, and vouchers relating thereto shall at all reasonable times be made available for inspection upon request of any bondowner.

(k) **AUDITS.** Each year while any of the Bonds or Additional Bonds are outstanding, an audit will be made of its books and accounts relating to the System and the Pledged Revenues by an independent certified public accountant or an independent firm of certified public accountants. As soon as practicable after the close of each year, and when said audit has been completed and made available to the Issuer, a copy of such audit for the preceding year shall be mailed to the Municipal Advisory Council of Texas and to any bondowners who shall so request in writing. Such annual audit reports shall be open to the inspection of the owners of the Bonds and Additional Bonds and their agents and representatives at all reasonable times.

(l) **GOVERNMENTAL AGENCIES.** It will comply with all of the terms and conditions of any and all franchises, permits, and agreements applicable to the System and the Bonds or Additional Bonds entered into between the Issuer and any governmental agency, and the Issuer will take all action necessary to enforce said terms and conditions; and the Issuer will obtain and keep in full force and effect all franchises, permits, and other requirements necessary with respect to the acquisition, construction, operation, and maintenance of the System.

(m) **CONTRACTS.** It will comply with the terms and conditions of the Contracts and will cause the Member Cities and other cities and customers to comply with all of their obligations thereunder by all lawful means; and the Contracts will not be rescinded, modified, or amended in any way which would have a materially adverse effect on the operation of the System or the rights of the owners of the Bonds and Additional Bonds.

(n) **ANNUAL BUDGET.** On or before the first day of the second calendar month prior to the beginning of each fiscal year, it will prepare the preliminary Annual Budget of Operation and Maintenance Expenses of the System for the ensuing fiscal year, and any amounts required to be deposited to the credit of the Contingency Fund during the ensuing fiscal year, and such budget shall include a showing as to the proposed expenditures for such ensuing fiscal year. If the owners of 10% in aggregate principal amount of the Bonds and Additional Bonds then outstanding shall so request on or before the 15th day of the aforesaid month, the Board

shall hold a public hearing on or before the 15th day of the following month, at which any bondowner may appear in person or by agent or attorney and present any objections he may have to the final adoption of such budget. Notice of the time and place of such hearing shall be published twice, once in each of two successive weeks, in newspapers of general circulation published in each of the Member Cities, with the date of the first publication to be at least fourteen days before the date fixed for the hearing; and copies of such notice shall be mailed at least ten days before the hearing to each bondowner who shall have filed his name and address with the Vice President/Secretary of the Board for such purpose. The Issuer further covenants that on or before the first day of each fiscal year it will finally adopt the Annual Budget of Operation and Maintenance Expenses of the System for such fiscal year (hereinafter sometimes called the "Annual Budget"). If for any reason the Board shall not have adopted the Annual Budget before the first day of any fiscal year, the budget for the preceding fiscal year shall be deemed to be in force until the adoption of the Annual Budget. The Operation and Maintenance Expenses of the System incurred in any fiscal year will not exceed the reasonable and necessary amount thereof. The Issuer may, at any time deemed necessary by the Board, adopt an Amended or Supplemental Budget for the remainder of the then current fiscal year.

Section 25. AMENDMENT OF RESOLUTION. (a) The owners of Bonds and Additional Bonds aggregating 51% in principal amount of the aggregate principal amount of then outstanding Bonds and Additional Bonds shall have the right from time to time to approve any amendment to any resolution authorizing the issuance of Bonds or Additional Bonds which may be deemed necessary or desirable by the Issuer, provided, however, that nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in said resolutions or in the Bonds or Additional Bonds so as to:

- (1) Make any change in the maturity of the outstanding Bonds or Additional Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding Bonds or Additional Bonds;
- (3) Reduce the amount of the principal payable on the outstanding Bonds or Additional Bonds;
- (4) Modify the terms of payment of principal or interest on the outstanding Bonds or Additional Bonds, or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all of the Bonds and Additional Bonds then outstanding;
- (6) Change the minimum percentage of the principal amount of Bonds and Additional Bonds necessary for consent to such amendment.

(b) If at any time the Issuer shall desire to amend a resolution under this Section, the Issuer shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, once during each calendar week for at least two successive calendar weeks. 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 each Paying Agent for any of the Bonds and Additional Bonds, for inspection by all owners of Bonds and Additional Bonds. Such publication is not required, however, if notice in writing is given to each owner of Bonds and Additional Bonds.

(c) 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 of the Issuer shall receive an instrument or instruments executed by the owners of at least 51% in aggregate principal amount of all Bonds and Additional Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the Issuer may adopt the amendatory resolution in substantially the same form.

(d) Upon the adoption of any amendatory resolution pursuant to the provisions of this Section, the resolution being amended shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the Issuer and all the owners of then outstanding Bonds and Additional Bonds and all future Additional Bonds shall thereafter be determined, exercised, and enforced hereunder, subject in all respects to such amendment.

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

(f) For the purpose of this Section the ownership and other matters relating to all Bonds and Additional Bonds shall be determined from the registration books kept for such bonds by the Paying Agent/Registrar therefor.

Section 26. DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS. (a) Replacement Bonds. In the event any outstanding Bond 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 Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, 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 Bond, 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 Bond, as the case may be. In every case of damage or mutilation of a Bond, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) No Default Occurred. Notwithstanding the foregoing provisions of this Section, in the event any such Bond 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 Bond, the Issuer may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, 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 Bond 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 Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the Issuer whether or not the lost, stolen, or destroyed Bond 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 Bonds duly issued under this Resolution.

(e) Authority for Issuing Replacement Bonds. In accordance with Chapter 1206, 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 Bonds in the form and manner and with the effect, as provided in Section 6(d) of this Resolution for Bonds issued in conversion and exchange for other Bonds.

Section 27. COVENANTS REGARDING TAX-EXEMPTION. (a) Covenants. The Issuer covenants to refrain from any action which would adversely affect, or to take such action to assure, the treatment of the Series 2021 Bonds as obligations described in section 103 of 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:

- (1) to take any action to assure that no more than 10 percent of the proceeds of the Series 2021 Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) 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 2021 Bonds, in contravention of section 141(b)(2) of the Code;
- (2) to take any action to assure that in the event that the "private business use" described in subsection (a) hereof exceeds five percent of the proceeds of the Series 2021 Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of five 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;
- (3) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or five percent of the proceeds of the Series 2021 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;
- (4) to refrain from taking any action that would otherwise result in the Series 2021 Bonds being treated as "private activity bonds" within the meaning of section 141(b) of the Code;
- (5) to refrain from taking any action that would result in the Series 2021 Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;
- (6) to refrain from using any portion of the proceeds of the Series 2021 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 2021 Bonds, other than investment property acquired with --

(A) proceeds of the Series 2021 Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the Series 2021 Bonds are issued,

(B) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(C) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Series 2021 Bonds;

(7) to otherwise restrict the use of the proceeds of the Series 2021 Bonds or amounts treated as proceeds of the Series 2021 Bonds, as may be necessary, so that the Series 2021 Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage); and

(8) to refrain from using the proceeds of the Series 2021 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 2021 Bonds in contravention of the requirements of section 149(d) of the Code (relating to advance refundings); and

(9) 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 2021 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 2021 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.

(b) Rebate Fund. In order to facilitate compliance with the above covenant (a)(8), 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 purpose of compliance with section 148 of the Code.

(c) Compliance with Code. For purposes of the foregoing covenants (a)(1) and (a)(2), 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 refunding 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 that modify or expand provisions of the Code, as applicable to the Series 2021 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 2021 Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated that impose additional requirements applicable to the Series 2021 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 2021 Bonds under section 103 of the Code. In furtherance of such intention, the Issuer hereby authorizes and directs the President of the Board of Directors, the General Manager, or the Director of Finance to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the Issuer, that may be permitted by the Code as are consistent with the purpose for the issuance of the Series 2021 Bonds.

(d) Written Procedures. Unless superseded by another action of the Issuer to ensure compliance with the covenants contained herein regarding private business use, remedial actions, arbitrage and rebate, the Issuer hereby adopts and establishes the instructions attached hereto as Exhibit A as their written procedures applicable to the Bonds and any Additional Bonds.

Section 28. ALLOCATION OF, AND LIMITATION ON, EXPENDITURES FOR THE PROJECT. The Issuer covenants to account for the expenditure of sale proceeds and investment earnings to be used for the purpose of refinancing the projects financed with proceeds of the Refunded Bonds (the "Project") 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) the Project is completed. The foregoing notwithstanding, the Issuer shall not expend sale proceeds or investment earnings thereon more than 60 days after the earlier of (1) the fifth anniversary of the delivery of the Series 2021 Bonds, or (2) the date the Series 2021 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 2021 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 interest.

Section 29. DISPOSITION OF PROJECT. The Issuer covenants that the property constituting the Project refinanced by the Series 2021 Bonds will not be sold or otherwise disposed in a transaction resulting in the receipt by the Issuer of cash or other compensation, unless the Issuer obtains an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Series 2021 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.

INVESTMENTS

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board of Directors of the District. Both state law and the District's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under Texas law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State 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 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) 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, if 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 270 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.

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

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

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

TABLE 8 - CURRENT INVESTMENTS

As of April 1, 2021, the following percentages of the District's investable funds were invested in the following categories of investments:

Description	Percent	Fair Value	Amortized Value
Government Obligations	9.53%	\$ 11,000,000	\$ 11,087,821
Certificate of Deposits	29.46%	34,021,321	34,021,321
Money Market	4.42%	5,107,589	5,107,589
TexPool	56.59%	65,337,715	65,337,715
	<u>100.00%</u>	<u>\$ 115,466,625</u>	<u>\$ 115,554,446</u>

(1) Based on Fair Value.

TAX MATTERS

OPINION . . . On the date of initial delivery of the Series 2021 Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, ("Existing Law") (1) interest on the Series 2021 Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Series 2021 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 Series 2021 Bonds. See APPENDIX C - Form of Bond Counsel's Opinion.

In rendering its opinion, Bond Counsel will rely upon (a) the District's federal tax certificate, (b) the Sufficiency Certificate of Hilltop Securities Inc., and (c) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Series 2021 Bonds and certain other matters. Failure of the District to comply with these representations or covenants could cause the interest on the Series 2021 Bonds to become includable in gross income retroactively to the date of issuance of the Series 2021 Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Series 2021 Bonds in order for interest on the Series 2021 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 Series 2021 Bonds to be included in gross income retroactively to the date of issuance of the Series 2021 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 Series 2021 Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Series 2021 Bonds. Further, no assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Series 2021 Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer 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 Series 2021 Bonds (the "Original Issue Discount Series 2021 Bonds") may be less than the principal 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. In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Series 2021 Bond, and (ii) the initial offering price to the public of such Original Issue Discount Series 2021 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 Series 2021 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 Series 2021 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 discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Series 2021 Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Series 2021 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 Series 2021 Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Series 2021 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 Series 2021 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 Series 2021 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 current interest during such accrual period on such Original Issue Discount Series 2021 Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Series 2021 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 Series 2021 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 Series 2021 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 Series 2021 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 Series 2021 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 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, owners of interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed 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 Series 2021 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 Series 2021 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.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Series 2021 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 Series 2021 Bonds will be sent to each registered holder and to the IRS. 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, the District has made the following agreements for the benefit of the holders and beneficial owners of the Series 2021 Bonds. Under the Resolution, the District has agreed to provide or cause to be provided with respect to itself, and each Significant Obligated Person, certain updated financial information and operating data annually, and the District will be obligated to provide timely notice of specified events. For purposes of such agreement, the term "Significant Obligated Person" means any Member City, additional Member City, or other contracting parties whose payments to the District for use of or service from the System in the calendar year preceding any such determination exceeded 10% of the Gross Revenues of the System. Under the agreements, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information is available free of charge from the Municipal Securities Rulemaking Board ("MSRB") via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS . . . The District will provide or cause each Significant Obligated Person to provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data (i) with respect to the District of the general type included in this Official Statement under tables numbered 1 through 8 (ii) with respect to each Significant Obligated Person of the general type included in Appendix B to this Official Statement. The District will provide, or cause each Significant Obligation Person to provide, this information within 6 months after the end of each fiscal year ending in and after 2021. The District will additionally provide or cause to be provided audited financial statements for the District and each Significant Obligated Person within 12 months after fiscal year end. If the audit of such financial statements of the District or a Significant Obligated Person is not complete within 12 months after their respective fiscal year end, then the District shall provide or cause to provide by each Significant Obligated Person unaudited financial statements within said 12-month period and audited financial statements when and if the audit report on such statement becomes available. Any such financial statements will be prepared in accordance with general accepted accounting principles or such other accounting principles as the District or the Significant Obligated Persons may be required to employ from time to time pursuant to State law or regulation. The District or a Significant Obligated Person may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC").

The District or the Significant Obligated Persons may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The District's and each current Significant Obligated Persons current fiscal year end is September 30. Accordingly, updated financial and operating information must be provided by March 31 and the audited financial statements by September 30 in each year (or unaudited financial statements if the audited financial statements are not yet available as described above), unless the District or a Significant Obligated Person, as the case may be, changes its respective fiscal year. If the District or a Significant Obligated Person changes its fiscal year, the District will notify the MSRB of the change.

NOTICE OF CERTAIN EVENTS . . . The District will also provide, or cause a Significant Obligated Person to provide, timely notices of certain events to the MSRB. The District will provide notice (not in excess of ten (10) business days after the occurrence of the event) of any of the following events with respect to the Series 2021 Bonds: (1) Principal and interest payment delinquencies; (2) Non-payment related defaults, if material; (3) Unscheduled draws on debt service reserves reflecting financial difficulties; (4) Unscheduled draws on credit enhancements reflecting financial difficulties; (5) Substitution of credit or liquidity providers, or their failure to perform; (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security; (7) Modifications to the rights of security holders, if material; (8) bond calls, if material, and tender offers; (9) Defeasances; (10) Release, substitution or sale of property securing repayment of the securities, if material; (11) Rating changes; (12) Bankruptcy, insolvency, receivership or similar event of the District, or a Significant Obligated Person; (13) the consummation of a merger, consolidation, or acquisition involving the District, or a Significant Obligated Person, or the sale of all or substantially all of the assets of the District, or a Significant Obligated Person, 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 trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation, as defined by the Rule, of the District or a Significant Obligated Person (which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District or a Significant Obligated Person any of which affect security holders, if material; (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District or a Significant Obligated Person, any of which reflect financial difficulties.

AVAILABILITY OF INFORMATION . . . All information and documentation filing required to be made by the District will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings is provided, without charge to the general public, by the MSRB through EMMA.

LIMITATIONS AND AMENDMENTS . . . The District has agreed to update information and to provide or cause the Significant Obligated Person to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 2021 Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Series 2021 Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District or the respective Significant Obligated Person, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Series 2021 Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Series 2021 Bonds consent to the amendment or (b) any person unaffiliated with the District or the Significant Obligated Person (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Series 2021 Bonds. If the District so amends the agreement, the District has agreed to include or cause the Significant Obligated Person to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the District believes it has complied in all material respects with all continuing disclosure agreement made by it in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS

The Series 2021 Bonds and the outstanding debt of the District are rated "AA-" by S&P. The District also has certain other bonds that are rated by Moody's; however, the District has not requested Moody's assign a rating to the Bonds. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, by either of them, may have an adverse effect on the market price of the Series 2021 Bonds. (See "BOND INSURANCE - Claims-Paying Ability and Financial Strength of Municipal Bond Insurers" and "- Bond Insurance Risk Factors" for a description of the current state of the financial guaranty insurance industry and information regarding downgrading and negative changes to the ratings outlook of multiple financial guaranty insurers).

LITIGATION

There is no litigation of any nature pending or to the District's knowledge threatened, either in state or federal courts, contesting or attacking the Series 2021 Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Series 2021 Bonds; or affecting the validity of the Series 2021 Bonds or the title of the present officers of the District.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Series 2021 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 Series 2021 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2021 Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Series 2021 Bonds under the securities laws of any jurisdiction in which the Series 2021 Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Series 2021 Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Texas Government Code provides that the Series 2021 Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking fund of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Series 2021 Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations. The Series 2021 Bonds are eligible to secure deposits of any public funds of the state, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code), the Series 2021 Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. No review by the District has been made of the laws in other states to determine whether the Series 2021 Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS

The District will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Series 2021 Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Series 2021 Bonds and to the effect that the Series 2021 Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Series 2021 Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Series 2021 Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Series 2021 Bonds will also be furnished. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Preliminary Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions, "PLAN OF FINANCING – Payment of Refunded Obligations", "THE SERIES 2021 BONDS" (except under the subcaptions "Book-Entry-Only System" and "Series 2021 Bondholder Remedies") " CERTAIN PROVISIONS OF THE BOND RESOLUTION", "WATER SUPPLY CONTRACTS WITH MEMBER CITIES", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except information under "Compliance with Prior Undertakings"), "OTHER INFORMATION – "Registration and Qualification of Bonds for Sale," – "Legal Investments and Eligibility to Secure Public Funds in Texas," and –"Legal Opinions (insofar as it relates to Bond Counsel)" and such firm is of the opinion that the information relating to the Series 2021 Bonds and legal matters contained under such and "APPENDIX C – Form of Bond Counsel's Opinion" captions and subcaptions is an accurate and fair description of the documents, laws and legal issues addressed therein, and with respect to the Series 2021 Bonds such information conforms to the provisions of the Resolution. In connection with the transactions described herein, Bond Counsel represents only the District. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Series 2021 Bonds is contingent on the sale and delivery of the Series 2021 Bonds. The legal opinion will accompany the Series 2021 Bonds deposited with DTC or will be printed on the Series 2021 Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Norton Rose Fulbright US LLP, Texas, Counsel to the Underwriter. The legal fee to be paid to Counsel for the Underwriter in connection with the issuance of the Series 2021 Bonds is contingent on the sale and delivery of the Series 2021 Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2021 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL ADVISOR

Hilltop Securities Inc. ("HilltopSecurities") serves as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. HilltopSecurities, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions contained in a Bond Purchase Agreement, to purchase the Series 2021 Bonds from the District, at an underwriting discount of \$_____. The Underwriter will be obligated to purchase all of the Series 2021 Bonds if any Series 2021 Bonds are purchased. The Series 2021 Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Series 2021 Bonds into investment trusts) at prices lower than the public offering prices of such Series 2021 Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

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

FORWARD LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

The Resolution authorizing the issuance of the Series 2021 Bonds also approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Series 2021 Bonds by the Underwriter.

COLORADO RIVER MUNICIPAL WATER DISTRICT

/s/ _____
Pricing Officer

SCHEDULE OF REFUNDED BONDS***Water System Revenue Bonds, Series 2010**

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
5/1/2010	1/1/2022	1.984%	\$ 615,000	\$ 615,000
	1/1/2023	2.097%	635,000	635,000
	1/1/2024	2.091%	650,000	650,000
	1/1/2025	2.284%	670,000	670,000
	1/1/2026	2.371%	690,000	690,000
	1/1/2027	2.442%	715,000	715,000
	1/1/2028	2.515%	735,000	735,000
	1/1/2029	2.587%	755,000	755,000
	1/1/2030	2.587%	780,000	780,000
			<u>\$6,245,000</u>	<u>\$6,245,000</u>

The 2022 - 2030 maturities will be redeemed prior to original maturity on July 1, 2021, at par.

Water System Revenue Bonds, Series 2010A

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
11/1/2010	1/1/2022	1.834%	\$ 600,000	\$ 600,000
	1/1/2023	1.979%	615,000	615,000
	1/1/2024	2.092%	635,000	635,000
	1/1/2025	2.192%	655,000	655,000
	1/1/2026	2.281%	675,000	675,000
	1/1/2027	2.363%	695,000	695,000
	1/1/2028	2.437%	715,000	715,000
	1/1/2029	2.487%	740,000	740,000
	1/1/2030	2.480%	760,000	760,000
	1/1/2031	2.390%	785,000	785,000
			<u>\$6,875,000</u>	<u>\$6,875,000</u>

The 2022 – 2031 maturities will be redeemed prior to original maturity on July 1, 2021 at par.

* Preliminary, subject to change.

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APPENDIX A

EXCERPTS FROM THE

COLORADO RIVER MUNICIPAL WATER DISTRICT

FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2020

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

C E R T I F I E D P U B L I C A C C O U N T A N T S

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

UNMODIFIED OPINION ON THE BASIC FINANCIAL STATEMENTS

Board of Directors
Colorado River Municipal Water District
Big Spring, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, governmental funds and fiduciary funds of Colorado River Municipal Water District, Big Spring, Texas (the District), as of and for the fiscal year ended September 30, 2020, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 governmental activities, governmental funds and fiduciary funds of Colorado River Municipal Water District, as of September 30, 2020, and the respective changes in financial position 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 changes in the Plan's Net Pension Liability and related ratios, and budgetary comparison information on pages 3 through 7 and 33 through 35 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021 on our consideration of the 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 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 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 of the District's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

January 29, 2021

COLORADO RIVER MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Colorado River Municipal Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial statements of the District for the year ended September 30, 2020. Please read it in conjunction with the Independent Auditor's Report on page 1, and the District's Basic Financial Statements which begin on page 8.

FINANCIAL HIGHLIGHTS

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$288,635,476 (net position) as compared to \$266,951,640 for the previous fiscal year. Of this amount, \$149,543,913 (unrestricted net position) is in an unrestricted position. Net Position grew \$21,683,836 in 2020 as compared to an increase of \$26,861,547 in 2019.

At September 30, 2020, the District's governmental funds reported combined ending fund balances of \$122,365,150, an increase of \$759,569 in comparison with the prior year.

At September 30, 2020, the assigned fund balance of the general fund was \$1,221,890 or 7.9% of total general fund expenditures as compared to \$1,221,867 or 8.4% of total general fund expenditures for the previous year.

USING THIS ANNUAL REPORT

This annual report consists of a combination of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 8 and 9). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (also on pages 8 and 9) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending.

The notes to the financial statements, as listed in the table of contents, provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison (general fund) is presented as a required supplementary schedule on page 35.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities (See Table of Contents)

Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets plus deferred outflows and liabilities plus deferred inflows) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider other factors as well, such as changes in the District's revenue sources and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

Governmental Activity – Most of the District's basic services are reported here, including water and administration. User charges and to a lesser extent investment income finances these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements, as listed in the table of contents, provide detailed information about the most significant funds – not the District as a whole. Governmental fund types include the general fund, debt service fund, and capital projects fund.

Governmental Funds – All of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the adjustments column and related notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from \$266,951,640 to \$288,635,476. Unrestricted Net Position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$109,365,228 to \$149,543,913. Restricted assets require specific approval from the Board of Directors before they can be used.

Table I
Colorado River Municipal Water District

NET POSITION

	Governmental Activities 2020	Governmental Activities 2019
	<u>2020</u>	<u>2019</u>
Current and Other Assets	\$ 127,433,269	\$ 125,900,994
Capital Assets	355,295,486	348,761,631
Deferred Outflows	7,593,858	9,121,153
Total Assets and Deferred Outflows	<u>\$ 490,322,613</u>	<u>\$ 483,783,778</u>
Other Liabilities	\$ 19,293,011	\$ 18,621,401
Long-Term Liabilities	181,949,978	197,891,348
Deferred Inflows	444,148	319,389
Total Liabilities and Deferred Inflows	<u>\$ 201,687,137</u>	<u>\$ 216,832,138</u>
Net Position:		
Net Investment in Capital Assets	\$ 138,423,792	\$ 157,311,367
Restricted	667,771	275,045
Unrestricted	<u>149,543,913</u>	<u>109,365,228</u>
Total Net Position	<u><u>\$ 288,635,476</u></u>	<u><u>\$ 266,951,640</u></u>

The District's Current and Other Assets increased due to increased cash and investments.

The change in Capital Assets includes additions of \$14,813,741 and annual depreciation of \$8,279,885.

Long-Term Liabilities decreased due to paying down existing debt.

Table II
Colorado River Municipal Water District

CHANGES IN NET POSITION

	Governmental Activities 2020	Governmental Activities 2019
Revenues:		
Operating Income	\$ 48,787,633	\$ 48,132,061
Investment and Other Earnings	<u>3,318,255</u>	<u>8,680,355</u>
Total Revenue	<u>\$ 52,105,888</u>	<u>\$ 56,812,416</u>
Expenses:		
Operating Expenses	\$ 22,142,167	\$ 21,801,961
Depreciation	<u>8,279,885</u>	<u>8,148,908</u>
Total Expenses	<u>\$ 30,422,052</u>	<u>\$ 29,950,869</u>
Increase in Net Position	\$ 21,683,836	\$ 26,861,547
Net Position at October 1,	<u>266,951,640</u>	<u>240,090,093</u>
Net Position at September 30,	<u><u>\$ 288,635,476</u></u>	<u><u>\$ 266,951,640</u></u>

The District's total revenues were down in comparison to the prior year. In 2019, the District sold a transmission line for \$3.5 million and received \$2.1 million related to a damage agreement.

In 2020 the District's total expenditures increased due primarily to cost of pumping and wages.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds, as listed in the table of contents, reported a combined fund balance of \$122,365,150, which is more than last year's total of \$121,605,581. The District water supply contracts are "take-or-pay" contracts and based on the budget adopted by the Board of Directors at the beginning of each year. Unanticipated events during the year can impact revenue and expenses. General Fund – Costs to provide water remained below budget because of several factors including a lower cost of electricity. Capital Project Funds – The Capital Projects fund balance increased due to funds transferred from the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2020, the District had \$355,295,486 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, machinery and equipment and other improvements. More detailed information about the District's capital assets is presented in Note 7 to the financial statements.

Debt and Obligations

At year-end the District had \$166,925,000 in bonds and obligations outstanding versus \$180,150,000 last year – a decrease of 7.34%.

More detailed information about the District's long-term liabilities can be found in the notes to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Many factors impact the District and its operations including the economy, weather, growth in customer needs (water demand) and cost increases in fuel, electricity, materials and labor. Weather and water sales to municipal and industrial customers and the energy industry are the largest factors affecting revenues. Revenues for 2021 are calculated using a normal weather year and minimum water sales to the District's municipal and industrial customers. Total projected revenues for the fiscal year 2021 is \$41,959,423.

Operating Expense for 2021 is budgeted in the amount of \$41,959,423, a decrease of \$86,646 or -0.21% under 2020. Debt service for 2021 is budgeted at \$21,157,123, an increase of \$36,017.

Capital expenditures for 2021 are budgeted from the Contingency and Improvement Fund, Water Development Fund and 2011 Bonds. Projects to conclude construction in 2021 include the E.V. Spence Gate Hoist rehabilitation, the McWhorter and Martin County Ground Storage Tank upgrades and the Spence Pump Station Upgrades. Projects under construction include installation of the Cathodic Protection System on various pipelines and upgrades to the Communication System.

It is expected that the District will be able to fund identified capital requirements while maintaining appropriate debt service coverage levels and sustaining sound overall financial position.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, creditors, and other interested parties with a general overview of the District's finances and to show accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Colorado River Municipal Water District, P.O. Box 869 (400 East 24th Street), Big Spring, Texas 79721-0869.

COLORADO RIVER MUNICIPAL WATER DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
ASSETS						
Cash	\$ 12,064,346	\$ 9,081,871	\$ 63,568,651	\$ 84,714,868	\$	\$ 84,714,868
Investments		6,996,404	27,560,491	34,556,895		34,556,895
Other Receivables	8,065,973	41,145	54,388	8,161,506		8,161,506
Internal Receivables		2,020,000	15,823,873	17,843,873	(17,843,873)	0
Capital Assets (Net of Accumulated Depreciation)						
Land					22,649,171	22,649,171
Construction in Progress					36,015,580	36,015,580
Infrastructure					244,791,671	244,791,671
Other Capital Assets					6,189,531	6,189,531
Water Rights (Net of Accumulated Amortization)					45,649,533	45,649,533
Total Assets	<u>\$ 20,130,319</u>	<u>\$ 18,139,420</u>	<u>\$ 107,007,403</u>	<u>\$ 145,277,142</u>	<u>\$ 337,451,613</u>	<u>\$ 482,728,755</u>
DEFERRED OUTFLOWS OF RESOURCES						
Pension Plan - Employer Contribution Deferrals					\$ 431,280	\$ 431,280
Pension Plan - Assumption Changes					499,184	499,184
Pension Plan - Experience Differences					233,731	233,731
Advance Refunding on Long Term Debt					6,429,663	6,429,663
Total Deferred Outflows of Resources					<u>\$ 7,593,858</u>	<u>\$ 7,593,858</u>
LIABILITIES						
Accounts Payable	\$ 811,157	\$	\$ 2,401,302	\$ 3,212,459	\$	\$ 3,212,459
Salaries/Benefits Payable	253,399			253,399	254,798	508,197
Accrued Interest Payable					13,970,094	13,970,094
Internal Payables	17,843,873			17,843,873	(17,843,873)	0
Unearned Revenue			1,602,261	1,602,261		1,602,261
Long-Term Liabilities:						
Due Within One Year					13,775,000	13,775,000
Due After One Year					167,081,114	167,081,114
Net Pension Liability					1,093,864	1,093,864
Total Liabilities	<u>\$ 18,908,429</u>	<u>\$ 0</u>	<u>\$ 4,003,563</u>	<u>\$ 22,911,992</u>	<u>\$ 178,330,997</u>	<u>\$ 201,242,989</u>
DEFERRED INFLOWS OF RESOURCES						
Pension Plan - Investment Earnings Differences					\$ 426,086	\$ 426,086
Pension Plan - Assumption Changes					9,178	9,178
Pension Plan - Experience Differences					8,884	8,884
Total Deferred Inflows of Resources					<u>\$ 444,148</u>	<u>\$ 444,148</u>
FUND BALANCES/NET ASSETS						
FUND BALANCES						
Restricted	\$	\$ 14,637,865	\$ 167,078	\$ 14,804,943	\$ (14,804,943)	
Committed			102,836,762	102,836,762	(102,836,762)	
Assigned	1,221,890	3,501,555		4,723,445	(4,723,445)	
Total Fund Balances	<u>\$ 1,221,890</u>	<u>\$ 18,139,420</u>	<u>\$ 103,003,840</u>	<u>\$ 122,365,150</u>	<u>\$ (122,365,150)</u>	
Total Liabilities and Fund Balances	<u>\$ 20,130,319</u>	<u>\$ 18,139,420</u>	<u>\$ 107,007,403</u>	<u>\$ 145,277,142</u>		
NET POSITION						
Net Investments in Capital Assets and Water Rights					\$ 138,423,792	\$ 138,423,792
Restricted for Debt Service					667,771	667,771
Unrestricted					149,543,913	149,543,913
Total Net Position					<u>\$ 288,635,476</u>	<u>\$ 288,635,476</u>

The accompanying notes are an integral part of this statement.

COLORADO RIVER MUNICIPAL WATER DISTRICT

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
REVENUES:						
Charges for Water	\$ 43,151,205	\$	\$	\$ 43,151,205	\$	\$ 43,151,205
Recreational	250,749			250,749		250,749
Amortization of Equipment			321,000	321,000	(321,000)	0
Debt Service	3,340,617			3,340,617		3,340,617
Investment Earnings	73,070	270,075	1,247,597	1,590,742		1,590,742
Operations, Maintenance and Electrical Power	2,045,062			2,045,062		2,045,062
Other	1,091,411		636,102	1,727,513		1,727,513
Total Revenues	\$ 49,952,114	\$ 270,075	\$ 2,204,699	\$ 52,426,888	\$ (321,000)	\$ 52,105,888
EXPENDITURES:						
Water Service	\$ 8,130,443	\$	\$	\$ 8,130,443	\$	\$ 8,130,443
Salaries, Benefits, & Payroll Taxes	6,357,231			6,357,231	709,481	7,066,712
Contracted Services	24,000		8,685	32,685		32,685
Professional Fees	138,938			138,938		138,938
Director Expenses	13,283			13,283		13,283
Other	511,747		40	511,787		511,787
Capital Outlay	321,000			321,000	(321,000)	0
Asset Construction & Replacement			15,040,845	15,040,845	(14,813,741)	227,104
Debt Service:						
Principal		13,225,000		13,225,000	(13,225,000)	0
Interest		7,896,107		7,896,107	(1,874,892)	6,021,215
Depreciation					8,279,885	8,279,885
Total Expenditures/Expenses	\$ 15,496,642	\$ 21,121,107	\$ 15,049,570	\$ 51,667,319	\$ (21,245,267)	\$ 30,422,052
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 34,455,472	\$ (20,851,032)	\$ (12,844,871)	\$ 759,569	\$ 20,924,267	
OTHER FINANCIAL SOURCES (USES):						
Transfers - Internal Activities	\$ (34,455,449)	\$ 21,099,449	\$ 13,356,000	\$	\$	
Total Other Financial Sources (Uses)	\$ (34,455,449)	\$ 21,099,449	\$ 13,356,000	\$ 0	\$ 0	
Excess (Deficiency) of Revenues and Other Resources Over (Under) Expenditures and Other Financial Sources (Uses)	\$ 23	\$ 248,417	\$ 511,129	\$ 759,569	\$ (759,569)	\$ 0
Change in Net Position					21,683,836	21,683,836
Fund Balance/Net Position - October 1 (Beginning)	1,221,867	17,891,003	102,492,711	121,605,581	145,346,059	266,951,640
Fund Balance/Net Position - September 30 (Ending)	\$ 1,221,890	\$ 18,139,420	\$ 103,003,840	\$ 122,365,150	\$ 166,270,326	\$ 288,635,476

The accompanying notes are an integral part of this statement.

**COLORADO RIVER MUNICIPAL WATER DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2020**

	Defined Benefit Pension Plan <u>December 31, 2019</u>	Agency Fund <u>September 30, 2020</u>
ASSETS		
Cash and Cash Equivalents	\$	\$ 48,741
Investment Funds, at fair value:		
Large U.S. Equity	2,616,880	
Small/Mid U.S. Equity	465,484	
International Equity	1,687,434	
Balanced/Asset Allocation	220,008	
Fixed Income	5,070,420	
Other	639,551	
Total Assets	<u>\$ 10,699,777</u>	<u>\$ 48,741</u>
LIABILITIES		
Accounts Payable	\$	\$ 14,420
Due to Other Entities		34,321
Total Liabilities	<u>\$ 0</u>	<u>\$ 48,741</u>
NET POSITION		
Restricted Net Position - Pension Benefits	<u>\$ 10,699,777</u>	<u>\$</u>
Total Net Position	<u>\$ 10,699,777</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this statement.

**COLORADO RIVER MUNICIPAL WATER DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Defined Benefit Pension Fund <u>December 31, 2019</u>
ADDITIONS	
District Contributions	\$ 590,337
Total Contributions	\$ <u>590,337</u>
Investment Earnings	
Net Change in Fair Value of Investments	\$ 938,188
Dividends and Realized Gains	<u>710,678</u>
Total Investment Earnings	\$ <u>1,648,866</u>
Total Additions	\$ <u>2,239,203</u>
DEDUCTIONS	
Pension Benefit Payments	\$ 681,853
Administration and Investing Costs	<u>109,254</u>
Total Deductions	\$ <u>791,107</u>
NET POSITION HELD IN TRUST	\$ 1,448,096
Net Position - Beginning	<u>9,251,681</u>
Net Position - Ending	\$ <u><u>10,699,777</u></u>

The accompanying notes are an integral part of this statement.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

1. REPORTING ENTITY

The financial statements of Colorado River Municipal Water District (the District) consist only of the funds of the District. The District has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

The directors of the District are comprised of a twelve-member board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING

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

ORGANIZATION

The District was created by an Act as a conservation and reclamation district under Article 16, Section 59 of the Constitution of Texas and constitutes a governmental agency and body politic and corporate. The District, as originally established, comprised all of the territory which was contained within the Cities of Big Spring, Texas, and Odessa, Texas, on March 1, 1949. As of February 5, 1951, the City of Snyder, Texas, became a part of the District in accordance with the Act's provision for annexation of other territory. Presently, the District's primary boundaries are the District limits of the Cities of Big Spring, Odessa, and Snyder, as they existed on January 1, 1981. By amending the District's original Act in 1981 through the legislative process, the District is now empowered to annex into its corporate limits from time to time. The 1981 Amendment to the Act creating the District further authorizes the District to assist municipalities and industrial organizations in the financing of water and sewer facilities and air pollution control facilities, all located within a 34 county area (approximately 31,000 square miles in the Permian Basin of West Texas).

BASIS OF ACCOUNTING AND PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities display information about the government-wide entity as a whole. These statements report information on all of the non-fiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are reported separately from business-type activities. The District currently has no business-type activities.

These government-wide financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

The Statement of Activities demonstrates how revenues are derived. The District reports all direct expenses in the Statement of Activities. Direct expenses are those that are clearly identifiable with a description. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense is reported separately in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds and fiduciary funds. Major governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from local sources consist primarily of charges for water. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, accrued compensated absences and claims and judgments are recorded only when payment is due.

The fiduciary fund financial statements were reported using the economic resources measurement focus and the accrual basis accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements.

GOVERNMENTAL FUND TYPES

The District reports the following major governmental funds:

General Fund – This fund is established to account for resources used for water operations. All service revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. This is a budgeted fund, and undesignated fund balances are considered resources available for current operations.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Additionally, the government reports the following fund types:

Debt Service Fund – This is a fund used to account for accumulation of resources for, and the payment of, principal and interest of general long-term debt. The two accounts used are: (1) Interest and Redemption Fund – which includes transfers from the general fund and payment of annual principal and interest on bonded debt, and (2) Required Reserve Fund – which is used for the accumulation of reserves required as the result of debt outstanding.

Capital Projects Fund – This fund is used to account for financial resources and to be used for the acquisition or construction of major capital assets.

FIDUCIARY FUND TYPES

Defined Benefit Pension Fund – Accounted for essentially the same as the government-wide financial statements, the net position of the fund is restricted for employee retirement benefits. This fund is reported on the most recent calendar year (December 31, 2019), the year end of the most recent actuarial study.

Agency Fund – Represents the funds held in a fiduciary capacity for a regional water planning study funded by the State of Texas. A statement of changes in fiduciary net position for this fund is not a required financial statement.

BASIS OF ACCOUNTING APPLICABLE TO ALL FINANCIAL STATEMENTS

Capital assets, which include infrastructure, buildings and improvements, furniture and equipment, vehicles, and work in progress are reported in the government-wide financial statements. In addition, the District includes purchased water rights as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets useful lives are not capitalized.

Supplies and materials are debited as expenditures when purchased.

It is the District's policy to permit employees to accumulate earned but unused vacation benefits. This liability is recorded in the government-wide financial statements.

BUDGETARY DATA

The official budget was prepared on the accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America, for the general fund. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

- a. During August of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget.
- c. Prior to October 1, the budget is legally enacted through passage of a resolution by the Board.

FUND EQUITY

The District applies GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement establishes criteria for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which the amounts in the funds may be spent. Application of the Statement requires the District to classify and report amounts in the appropriate fund balance classifications. The District's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned, or unassigned. From interpretation of the adopted policy the District will spend its fund in the following order: Committed, Assigned, and Unassigned, if more than one classification of fund balance is available.

The District reports the following classifications:

Nonspendable Fund Balance – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted Fund Balance – Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Restrictions are placed on fund balances when legally enforceable legislation establishes the District's right to assess, levy, or charge fees to be used for a specific purpose, which must be used to repay debt. Legal enforceability means that the District can be compelled by an external party to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed Fund Balance – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the Board of Directors. Committed amounts cannot be used for any other purposes unless the Board removes those constraints by taking the same type of actions (legislation, resolution, and ordinance). Committed fund balances include non-liquidated encumbrances at year end that are carried forward to the next fiscal year. Amounts in the committed fund balance classification may be used for other purposes with appropriate due process by the Board. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Assigned Fund Balance – Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Manager or (b) an appointed body (Special Committees for the Board) or official to which the Board has delegated the authority to assign, modify, or rescind amounts to be used for specific purposes.

Appropriated Assigned Fund Balance is an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.

Unassigned Fund Balance – Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Unassigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as nonspendable, restricted, or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment with the General Fund conveys that the intended use of those amounts is for specific purposes that are narrower than the general purposes of the District itself.

NET POSITION ON THE STATEMENT OF NET POSITION

Net position on the Statement of Net Position includes the following:

Net Investment in Capital Assets and Water Rights – this component of net position represents the difference between capital assets including water rights less accumulated depreciation, accumulated amortization and the outstanding balance of debt, excluding any unspent bond proceeds, that is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Debt Service – this component represents net assets available for retirement of bond principal and interest on outstanding bonds.

Unrestricted – the difference between assets and liabilities that is not reported in Net Position Net Investment in Capital Assets and Water Rights, or Restricted for Debt Service or Capital Projects.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

MANAGEMENT'S USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. BONDS AND OBLIGATIONS PAYABLE

1. Bond Issues and Obligations

Date Issued	Original Principal	Interest Rate	Callable
May 28, 2010 - Bonds	\$ 11,685,000	0.21 to 2.59%	7-1-2020 at par
May 28, 2010 - Obligations	45,315,000	4.24 to 4.69%	Anytime
December 02, 2010 - A-Bonds	11,970,000	0.075 to 2.487%	Anytime after 1-1-2021
August 16, 2011 - Bonds	131,235,000	4.00 to 5.00%	Anytime after 1-1-2022
December 22, 2011 - Taxable Bonds	60,225,000	1.00 to 3.625%	
November 15, 2017 - Bonds	96,915,000	4.00 to 5.00%	Anytime after 1-1-2028

Bond activity for the year ended September 30, 2020, was as follows:

	9/30/2019	Retired During Period	9/30/2020
2010 Revenue Bonds	\$ 7,420,000	\$ (580,000)	\$ 6,840,000
2010 State Participation	45,315,000		45,315,000
2010A Revenue Bonds	8,020,000	(565,000)	7,455,000
2011 Revenue Bonds	6,695,000	(3,295,000)	3,400,000
2011 Taxable Refunding Bonds	16,485,000	(8,055,000)	8,430,000
2017 Refunding Bonds	96,215,000	(730,000)	95,485,000
	<u>\$ 180,150,000</u>	<u>\$ (13,225,000)</u>	<u>\$ 166,925,000</u>

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

The schedule of debt service requirements (principal and interest) to maturity on general long-term debt including state participation obligations is as follows:

Fiscal Year	2010 Revenue Bonds	2010 State Participation	2010A Revenue Bonds	2011 Revenue Bonds	2011 Taxable Refunding Bonds	2017 Refunding Bonds	Total
2021	\$ 746,839	\$ 2,076,532	\$ 740,958	\$ 3,485,000	\$ 8,582,794	\$ 5,525,000	\$ 21,157,123
2022	755,327	3,627,440	750,572			12,920,875	18,054,214
2023	762,568	3,627,440	753,985			12,647,375	17,791,368
2024	764,114	3,627,440	761,257			12,639,375	17,792,186
2025	769,667	3,627,440	767,436			12,624,500	17,789,043
2026-2030	3,914,749	18,558,574	3,903,931			54,951,250	81,328,504
2031-2035		20,590,425	794,381			13,755,750	35,140,556
2036-2040		21,155,941					21,155,941
2041-2044		17,392,266					17,392,266
	<u>\$ 7,713,264</u>	<u>\$ 94,283,498</u>	<u>\$ 8,472,520</u>	<u>\$ 3,485,000</u>	<u>\$ 8,582,794</u>	<u>\$ 125,064,125</u>	<u>\$ 247,601,201</u>

The schedule of total debt service requirements, including unamortized premiums, is as follows:

Fiscal Year	Principal	Interest	Total
2021	\$ 13,775,000	\$ 7,382,123	\$ 21,157,123
2022	9,610,000	8,444,214	18,054,214
2023	9,795,000	7,996,368	17,791,368
2024	10,260,000	7,532,186	17,792,186
2025	10,745,000	7,044,043	17,789,043
2026-2030	55,745,000	25,583,504	81,328,504
2031-2035	25,580,000	9,560,556	35,140,556
2036-2040	15,560,000	5,595,941	21,155,941
2041-2044	15,855,000	1,537,266	17,392,266
Premiums	13,931,114		13,931,114
	<u>\$ 180,856,114</u>	<u>\$ 80,676,201</u>	<u>\$ 261,532,315</u>

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

4. RETIREMENT PLANS

Defined Benefit Plan

Description of Plan

Colorado River Municipal Water District Defined Benefit Retirement Plan (the Plan) is a single-employer defined benefit pension plan administered by Colorado River Municipal Water District (the District). The Plan was created by resolution of the board of Colorado River Municipal Water District on January 1, 1975 and was restated effective January 1, 2008. The Plan has been designed as a “governmental plan” by the U.S. Department of Labor and, thus, is not subject to the provisions of Title I of the Employee Retirement Income Security Act of 1974. The notes to these financial statements only provide general information, participants should refer to the Plan agreement for a more complete description of the Plan’s provisions.

There are no non-employer contributing entities or special funding situations for this plan.

Plan Administration

The Plan is administered by Colorado River Municipal Water District. Principal Financial Group is the Trustee for the Plan.

The District expects to continue the Plan indefinitely but reserves the right to terminate the Plan in whole or in part at any time upon giving written notice to all parties concerned.

The District may amend this Plan at any time, including any remedial retroactive changes (within the time specified by the IRS regulations) to comply with any law or regulation issued by any governmental agency to which the Plan is subject. Any amendments may not allow reversion or diversion of Plan assets to the District at any time, except as may be required to comply with any law or regulation issued by any governmental agency to which the Plan is subject.

Eligibility and Retirement Benefits

Eligibility

Service	6 months of service if scheduled to work 1,000 or more hours or 1 year of service if not scheduled to work 1,000 or more hours.
Class	Non-leased employee.
Entry Date	The earliest yearly date (January 1) on which he is an eligible employee and has met the service requirements shown above.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Normal Retirement Benefit

Age	Attained age 65.
Service	5 years of plan participation.
Form	Monthly annuity payable for 10 years certain and life.
Amount (Accrued Benefit)	The greater of (a) and (b): (a) 1.5% of Average Compensation multiplied by accrual service (not to exceed 15 years) plus 2.0% of Average Compensation multiplied by accrual service in excess of 15 years (b) the sum of (1) and (2) multiplied by (3) (1) 1.5% of Average Compensation multiplied by expected accrual service (not to exceed 15 years) on Normal Retirement Date (2) 2.0% of Average Compensation multiplied by expected accrual service (in excess of 15 years) on Normal Retirement Date (3) Accrued Benefit Adjustment
Minimum Benefit	January 1, 1985 expected monthly benefit times the Accrued Benefit Adjustment.

Early Retirement Benefit

Age	Attained age 55.
Service	20 years of vesting service.
Form	Same as Normal Retirement Benefit.
Amount	Accrued Benefit on Early Retirement Date reduced by 5% for each year that the Early Retirement Date precedes Normal Retirement Date.

Late Retirement Benefit

Age	No maximum age.
Form	Same as Normal Retirement Benefit.
Amount	Greater of Accrued Benefit on Late Retirement Date or the actuarial equivalent of the single sum value of this accrued benefit on the later of his Normal Retirement Date or the last day of the preceding plan year with the interest rate specified by the Actuarial Equivalence definition less any amount withdrawn by the Participant as follows: The participant may withdraw the amount of increase determined in accordance with this paragraph, on an annual, semi-annual, or quarterly basis. In no event shall the amount withdrawn cause the remaining reserve to decrease to a level such that the monthly amount is less than the monthly amount at Normal Retirement Date.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Termination Benefit

Vesting Percentage	25% after 5 years of vesting service plus 5% per year for the next 5 years of vesting service plus 10% per year for the next 5 years of vesting service.
Form	Same as Normal Retirement Benefit with income deferred until Normal Retirement Date.
Amount	Accrued Benefit on date of termination multiplied by the Vesting Percentage.

Single Sum Death Benefit

Eligibility	Qualified participant fully or partially vested in an Accrued Benefit.
Form	Single sum payable to beneficiary.
Amount	If death occurs, the amount paid to the beneficiary shall be equal to the present value of a vested deferred monthly retirement benefit payable to the participant beginning on his Normal Retirement Date payable under the normal form. The present value should not be less than the Employee Required Contribution Account.

Definitions

Average Compensation	The monthly average of total pay received for the 5 consecutive years out of all years before retirement date which gives the highest average.
Accrued Benefit Adjustment	The quotient (to 4 decimal places) of (a) divided by (b): (a) The member's accrual service as of such date. (b) The sum of (a) and the member's potential accrual service as of the date he reaches normal retirement age if he remains an eligible employee between the date of determination and the date he reaches normal retirement age.
Employee Required Contribution Account	This account is credited with 5% interest through date of determination. No required employee contributions shall be made on or after October 1, 1998.
Optional Forms of Benefit Payments	The optional forms of benefit payments are: (a) Monthly annuity payable for life or 10 years certain and life. (b) Monthly annuity payable as a survivorship life annuity with survivorship percentages of 50%, 75%, or 100%. (c) Monthly annuity for life with modified cash refund of employee contributions. (d) Single sum payment equal to the present value of the retirement benefit. The optional form conversion basis is 8% interest and the 1984 Unisex Pension Mortality Table for payments other than lump sums. The optional form conversion basis uses the interest rate on 30-year Treasury securities and the 1994 Group Annuity Reserve Mortality Table for lump sum payments. The interest rate uses the second calendar month preceding the first day of the stability period of the month that contains the annuity starting date.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Plan Membership

As of December 31, 2019 the Plan has 122 plan members. Of the total members 65 are active, 22 are inactive, and 35 are retired or have beneficiaries currently receiving benefits.

Contributions

The basis for determining contributions is an actuarially determined contribution rate that is calculated each year in the Plan's Actuarial Valuation Report. The actuarially determined contribution rate is the estimated amount necessary to finance the costs of benefits earned by Plan members during the year, with additional amounts to finance any unfunded accrued liability and plan administrative expenses.

In accordance with the Plan's governing document, employees may be required to contribute to the Plan. Employee contributions are currently waived. The actuarially determined contribution for the measurement period ending December 31, 2019 is \$678,491 for employer contributions and the District contributed \$590,337.

Derivatives

Separate accounts held at The Principal Financial Group may use derivatives as part of their investment strategy. These accounts are comingled pools, rather than individual securities.

Allocated Insurance Contracts

No annuities were purchased for plan members during the measurement period.

Net Pension Liability of the Plan

The components of the net pension liability of the Plan at December 31, 2019 were as follows:

Total Pension Liability	\$	11,793,641
Plan Fiduciary Net Position		<u>10,699,777</u>
Plan Net Pension Liability	\$	<u><u>1,093,864</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		90.72%

Cost Method

The entry age actuarial cost method is used for this disclosure. Under this method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings between entry age and assumed exit age(s). The portion of the present value allocated to a year is the service cost. Projected benefits are based on projected salary and projected service.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Measurement date

A measurement period of January 1, 2019 to December 31, 2019 has been used for the Plan year ending December 31, 2019 for GASB Statement No. 67 reporting and for the fiscal year ending September 30, 2020 for GASB Statement No. 68 reporting.

The net pension liability reported for the District's fiscal year end of September 30, 2020 was measured as of December 31, 2019, using the total pension liability that was determined by an actuarial valuation as of December 31, 2019.

Assumptions

Discount Rate

The discount rate used to determine the total pension liability was 6.00% changed from 6.25% in the prior year.

The Plan's fiduciary net position and benefit payments were projected to determine if the Plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2020 to 2108. Benefit payments after 2108 are projected to be \$0.

The long-term rate of return of 6.00% is used to calculate the actuarial present value of projected payments for each future period when the projected fiduciary net position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 3.50% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the measurement date.

The discount rate of 6.00% is a single rate that incorporates the long-term rate of return and municipal bond rate assumptions as described above.

Long-Term Rate of Return

The expected long-term rate of return assumption for the Plan's investments is 6.00% and was decreased from 6.25% in the prior year.

The actual weighted average asset allocation for the four quarterly dates from March 31, 2019 to December 31, 2019 is used as an approximation of the Plan's target asset allocation over the upcoming period. Based on this analysis the Plan believes the assumption selected is in the range of reasonable rates that could be used for this period.

Salary Increases

Table S-5 from the Actuary's Pension Handbook plus 3.00%.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Retirement

Active and inactive participants are assumed to retire at Normal Retirement Ages as defined above in the notes to the financial statements.

Long Term Rate of Return was calculated as follows:

<u>Asset Class</u>	<u>Expected Arithmetic Return</u>	<u>Expected Geometric Return</u>	<u>Target Allocation %</u>
US Equity - Large Cap	7.70%	6.35%	25.12%
US Equity - Mid Cap	7.95%	6.35%	2.92%
US Equity - Small Cap	8.50%	6.35%	1.44%
Non-US Equity	7.95%	6.35%	15.00%
REITs	7.60%	5.95%	0.41%
Real Estate (Direct Property)	5.55%	5.25%	5.91%
TIPS	3.50%	3.35%	0.61%
Core Bond	4.00%	3.90%	46.10%
High Yield	6.45%	6.00%	2.49%
Total			<u>100.00%</u>
Exp LTROA (Arithmetic Mean)			5.87%
Portfolio Standard Deviation			8.33%
40th Percentile			4.96%
45th Percentile			5.25%
Expected Compound Return			5.54%
55th Percentile			5.83%
60th Percentile			6.12%

Mortality

Blue collar mortality rates from RP-2006 (baseline table from SOA RP-2014 study based on experience data from private Pension Plans).

Future Employee Contributions

No required employee contributions shall be made on or after October 1, 1998.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Sources of Changes in Net Pension Liability

	Balance 12/31/2019
Service Cost	\$ 374,506
Interest	679,643
Differences in Experience	156,670
Changes in Assumptions	458,202
Employer Contributions	(590,337)
Net Investment Income	(1,648,866)
Administrative Expenses	109,254
Total Changes	\$ (460,928)
Beginning Net Pension Liability	1,554,792
Ending Net Pension Liability	\$ 1,093,864

Defined Contribution Plan

The District also sponsors a section 457 salary deferral plan in conjunction with a 401a defined contribution plan. Employees qualifying for the defined benefit pension plan would also qualify for the 457 salary deferral plan. Employees participating in the 457 plan as of December 1st each year are eligible for contributions from the District in the 401a plan. During the current period the District contributed \$113,572 on behalf of the District's employees in the 401a plan in accordance with the salary deferral agreements.

5. O.H. IVIE RESERVOIR AND RAW WATER TRANSMISSION PIPELINE

O.H. Ivie Reservoir

The District has contracted a certain portion of the yield of the O.H. Ivie Reservoir to the City of San Angelo, City of Midland, and the City of Abilene (on September 15, 2016, the O.H. Ivie Reservoir Contract was assigned from the West Central Texas Municipal Water District (WCTMWD) to the City of Abilene). By contract, Midland, San Angelo, and Abilene have each agreed to pay 16.540% of the annual debt service on the bonds. In addition, each of the entities has agreed to pay 16.540% of the annual operations and maintenance cost. They have also agreed to make these payments whether or not they are actually using water from the Ivie Reservoir.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

O.H. Ivie Raw Water Transmission Pipeline

The District has contracted a certain portion of the capacity of the O.H. Ivie Raw Water Transmission Pipeline to the City of Midland and the City of San Angelo. By contract, Midland and San Angelo have agreed to pay a portion of the annual debt service on the bonds and the annual operations and maintenance cost. Midland's portion of the debt service on the bonds is 29.502% and San Angelo's is 8.792%. San Angelo's share of the annual operations and maintenance cost of the pipeline is 27.780% for Section I. Midland's shares are 22.220% for Section I, 30.770% for Section II, 36.360% for Section III, and 50.000% for Station 8. Midland and San Angelo have also agreed to pay, on a monthly basis, for the electric power used to deliver water to each entity through the pipeline. They have also agreed to make these payments whether or not they are actually receiving water through the Ivie Pipeline.

6. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

Statutes authorize the District to invest in (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 Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the District has adopted a deposit and investment policy. That policy addresses the investment risks identified in GASB Statement No. 40. The District limits its exposure to investment risks by investing in local government investment pools and government securities.

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board require or permit in the statements at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

fair value: 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. The District's investments as of September 30, 2020 were all considered Level 1 and 2.

The carrying amount of the District's cash and temporary investments at September 30, 2020, approximates fair value and consisted of the following shown below:

		<u>Level</u>
Cash in Bank	\$ 4,365,568	N/A
Money Market	5,103,857	1
Texpool	68,745,443	1
Government Securities	14,501,045	2
Certificates of Deposit	<u>26,555,850</u>	1
Total Cash and Investments	<u>\$ 119,271,763</u>	

In compliance with the Act, the District has adopted a deposit and investment policy. That policy does not address the following risks:

- a. Custodial Credit Risk – Deposits and Investments: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments may not be returned to it. The District's policy does contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. The District is not exposed to custodial credit risk for its deposits are all covered by depository insurance and pledged securities held by a third party in the District's name.
- b. Concentration of Credit Risk – The investment policy of the District contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. government obligations, obligations explicitly guaranteed by the U.S. Government, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At September 30, 2020, all of the District's investments are in U.S. Government or U.S. Government backed securities and external investment pools, and as such the District has no risk.
- c. Credit Risk – The risk that an issuer of 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 September 30, 2020, the District was not significantly exposed to credit risk.
- d. Interest Rate Risk – This is the risk that changes if interest rates will adversely affect the fair value of an investment. The District does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments in government securities and government backed securities averages less than 12 months.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

- 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.

Public Funds Investment Pools

Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of the principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investment in Pools are reported at an amount determined by the fair value per share of the Pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

7. CAPITAL ASSETS AND NWCWF GROUNDWATER RIGHTS

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. NWCWF Groundwater Rights will be amortized as the water is pumped out and used based on the volume used to total estimated capacity. Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (Yrs)</u>
Infrastructure	20 - 100
Buildings	20
Building Improvements	20
Heavy Equipment	7 - 10
Vehicles	3 - 5
Office Equipment	5
Computer Equipment	5

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Capital assets and NWCWF Groundwater Rights activity for the year ended September 30, 2020, was as follows:

	Balance 10/1/2019	Additions	Retirements	Balance 9/30/2020
Land	\$ 22,649,171	\$	\$	\$ 22,649,171
Infrastructure	388,742,586	276,693		389,019,279
Buildings	33,704,588	51,425		33,756,013
Equipment	4,694,395	322,087		5,016,482
Automotive Equipment	2,397,831	198,756		2,596,587
Construction Work in Progress	22,050,797	13,964,780		36,015,577
NWCWF Groundwater Rights	46,471,557			46,471,557
Totals	\$ 520,710,925	\$ 14,813,741	\$ 0	\$ 535,524,666

Accumulated Depreciation and Amortization:

	Balance 9/30/2019	Accruals	Retirements	Balance 9/30/2020
Infrastructure	\$ 137,590,900	\$ 6,636,706	\$	\$ 144,227,606
Buildings	27,667,455	964,753		28,632,208
Equipment	4,165,171	226,443		4,391,614
Automotive Equipment	1,919,059	236,670		2,155,729
NWCWF Groundwater Rights	606,710	215,313		822,023
Totals	\$ 171,949,295	\$ 8,279,885	\$ 0	\$ 180,229,180

8. RISK MANAGEMENT

During the year 1990, the District decided to stop carrying commercial insurance covering retirees' accident, health and other medical benefit claims and began covering these claims out of its General Fund. At that time the District provided coverage for up to \$250,000 maximum lifetime per person. Effective October 1, 2002, the District changed its insurance coverage for current retirees' accident, health, and other medical benefit claims by providing a separate new Retiree Benefit Plan for all early retirees and spouses until they reach the age of 65. With the final retiree's spouse reaching the age of 65 in March 2011 the Retiree Benefit Plan has been terminated and is no longer available.

With the enactment of The Patient Protection and Affordable Care Act in 2010 the District's Employee Benefit Group Health Plan was required to make changes that would expose the District to additional financial liabilities. The most material change was the elimination of the maximum lifetime amount of \$1,000,000 per covered person and replacing that with a \$2,000,000 maximum plan year benefit amount per person.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

The District currently offers one partially self-funded Employee Benefit Group Health Plan to all active full-time employees and their dependents. The District has purchased an Excess Loss Reinsurance policy for the Benefit Period Year October 1, 2019 to September 30, 2020. The Excess Loss Reinsurance policy includes both Specific and Aggregate claims excess loss coverage. The reinsurance carrier is Gerber Life Insurance Company. The District's Specific retention amount per covered person is \$40,000 per Plan/Contract Year. The District is also financially responsible for an Aggregate Specific Deductible amount of \$35,000. This is the amount of specific medical and pharmacy claims the District must pay prior to reinsurance reimbursement. The carrier's specific maximum limit per covered person per plan year is unlimited upon satisfaction of specific attachment points. Under the Aggregate Excess Loss coverage the minimum aggregate retention amount is \$1,068,949 per plan year. The maximum aggregate limit of reimbursement liability is \$1,000,000 per plan year.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

At September 30, 2020, the amount of these liabilities was \$37,003 and the amount is included in accrued liabilities on the combined balance sheet. This liability is the District's best estimate based on available information. Changes in the reported liability resulted from the following:

Balance 9/30/2019	Current Year Claims and Changes in Estimates	Claims Paid	Balance 9/30/2020
\$ 39,931	\$ 568,371	\$ 571,299	\$ 37,003

9. RELATED PARTIES

Cities	Water Sales	Accounts Receivable 9/30/2020	Debt Service, Power Cost and O&M
Odessa	\$ 18,933,368	\$ 1,604,166	\$
Midland	13,917,306	5,327,635	3,894,889
Big Spring	3,885,516	326,995	
Snyder	1,261,251	211,871	
San Angelo	76,440	179,309	1,443,738
Abilene		12,330	47,053
Total	\$ 38,073,881	\$ 7,662,306	\$ 5,385,680

Odessa, Big Spring and Snyder are member cities and are entitled to Board representation. Midland, San Angelo, and Abilene are contract authorities and do not have Board representation.

COLORADO RIVER MUNICIPAL WATER DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

10. LITIGATION

At the present time the District is not involved with any legal proceedings incident to the business which would result in any material losses to the District.

11. RECONCILIATION OF THE FUND BALANCE – GOVERNMENTAL FUNDS TO NET POSITION – GOVERNMENTAL ACTIVITIES

Total Fund Balances - Governmental Funds	\$ 122,365,150
Advance refunding difference is recognized as an asset for governmental activities.	6,429,663
Capital assets used in governmental activities are not financial expenditures and therefore are not reported in governmental funds.	355,295,486
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(254,798)
Long-term liabilities (including current maturities) used in governmental activities are not financial resources and therefore are not reported in governmental funds. Total outstanding debt:	(166,925,000)
Accrued interest payable is not due and payable in the current period and therefore are not reported in the funds.	(13,970,094)
Unamortized Bond Premium is recognized of the life of a bond and is not recognized as a current asset and therefore are not reported in the funds.	(13,931,114)
Deferred Outflows and Inflows of Resources and Net Pension Liability not recognized in the governmental funds.	<u>(373,817)</u>
Net Position - Governmental Activities	<u>\$ 288,635,476</u>

COLORADO RIVER MUNICIPAL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

12. RECONCILIATIONS OF THE CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS TO THE CHANGE IN NET POSITION – GOVERNMENTAL ACTIVITIES

Net Change in Fund Balance - Governmental Funds \$ 759,569

Governmental funds report capital outlay as expenditures. However, in the Statements of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. Total capital outlays equal. 14,813,741

Principal and interest payments are reflected as current period expenditures as paid in the governmental funds. In the Statement of Activities principal they are reflected as a reduction of long-term debt while interest is reflected on the accrual basis rather than as paid. In addition, bond premium and advance refundings are amortized. Adjustments for principal, interest and amortization equal. 15,099,892

Depreciation is not reflected in governmental funds but is reflected in governmental activities. Depreciation totaled. (8,279,885)

Accrued compensated absences are recorded in the Statement of Activities as an expense but not in governmental funds. Total accrued absences expense. (43,225)

Net change in pension expense to convert amounts paid in for the governmental funds to accrued pension expense for governmental activities. (666,256)

Change in Net Position of Governmental Activities \$ 21,683,836

REQUIRED SUPPLEMENTARY INFORMATION

**COLORADO RIVER MUNICIPAL WATER DISTRICT
DEFINED BENEFIT RETIREMENT PLAN
SCHEDULE OF CHANGES IN THE PLAN'S NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2020**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability
Service Cost	\$ 374,506	\$ 409,703	\$ 392,136	\$ 297,800	\$ 342,092	\$ 338,412
Interest	679,643	650,035	629,346	650,819	655,622	739,240
Benefit Payments	(681,853)	(918,043)	(1,343,659)	(524,590)	(1,569,881)	(1,336,447)
Differences between Expected and Actual Experience	156,670	(19,214)	321,344	98,882	(238,919)	(58,767)
Changes in Assumptions	<u>458,202</u>	<u>274,073</u>	<u>(27,172)</u>	<u>345,899</u>	<u>(15,689)</u>	<u>220,200</u>
Net Change	\$ 987,168	\$ 396,554	\$ (28,005)	\$ 868,810	\$ (826,775)	\$ (97,362)
Beginning Balance	10,806,473	10,409,919	10,437,924	9,569,114	10,395,889	10,493,251
Ending Balance	<u>\$ 11,793,641</u>	<u>\$ 10,806,473</u>	<u>\$ 10,409,919</u>	<u>\$ 10,437,924</u>	<u>\$ 9,569,114</u>	<u>\$ 10,395,889</u>
	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>
Employer Contributions	\$ 590,337	\$ 529,130	\$ 494,795	\$ 494,703	\$ 486,010	\$ 528,286
Net Investment Income	1,648,866	(318,472)	1,342,609	612,219	83,715	641,530
Administration Expenses	(109,254)	(101,085)	(94,256)	(94,896)	(111,869)	(94,915)
Benefit Payments	<u>(681,853)</u>	<u>(918,043)</u>	<u>(1,343,659)</u>	<u>(524,590)</u>	<u>(1,569,881)</u>	<u>(1,336,447)</u>
Net Change	\$ 1,448,096	\$ (808,470)	\$ 399,489	\$ 487,436	\$ (1,112,025)	\$ (261,546)
Beginning Balance	<u>9,251,681</u>	<u>10,060,151</u>	<u>9,660,662</u>	<u>9,173,226</u>	<u>10,285,251</u>	<u>10,546,797</u>
Ending Balance	<u>\$ 10,699,777</u>	<u>\$ 9,251,681</u>	<u>\$ 10,060,151</u>	<u>\$ 9,660,662</u>	<u>\$ 9,173,226</u>	<u>\$ 10,285,251</u>
Net Pension Liability	<u>\$ 1,093,864</u>	<u>\$ 1,554,792</u>	<u>\$ 349,768</u>	<u>\$ 777,262</u>	<u>\$ 395,888</u>	<u>\$ 110,638</u>
Fiduciary Net Position as a Percentage of Total Pension Liability	90.72%	85.61%	96.64%	92.55%	95.86%	98.94%
Covered Payroll	\$ 3,604,131	\$ 3,680,075	\$ 3,635,925	\$ 3,653,652	\$ 2,828,309	\$ 3,187,355
Net Pension Liability as a Percentage of Covered Payroll	30.35%	42.25%	9.62%	21.27%	14.00%	3.47%
Notes to Schedule						
Long-Term Rate of Return on Assets	6.00%	6.25%	6.25%	6.25%	6.75%	6.75%
Discount Rate	6.00%	6.25%	6.25%	6.25%	6.75%	6.75%
Salary Increase Assumption	S5 + 3.00%	S5 + 3.00%	S5 + 3.00%	S5 + 3.00%	S5 + 3.25%	S5 + 3.25%
COLA Increase Assumption	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Retirement Age Assumption	NRA	NRA	NRA	NRA	NRA	NRA
Plan Changes	None	None	None	None	None	None
Sensitivity to Changes in Net Pension Liability Discount Rate:						
1% Decrease in Discount Rate	\$ 1,867,752	\$ 2,283,552	\$ 1,256,080	\$ 1,707,935	\$ 1,243,629	\$ 1,069,172
1% Increase in Discount Rate	\$ 414,456	\$ 913,816	\$ (435,011)	\$ (31,112)	\$ (343,335)	\$ (728,386)

Note: Only six years of GASB 68 Data Available as of 12/31/2019. The remaining four years of data will be built on a go forward basis.

**COLORADO RIVER MUNICIPAL WATER DISTRICT
DEFINED BENEFIT RETIREMENT PLAN**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
SEPTEMBER 30, 2020**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
Actuarially Determined Contribution	\$ 630,078	\$ 523,600	\$ 572,479	\$ 380,413	\$ 381,595	\$ 344,979
Actual Contributions	575,040	529,130	494,795	494,703	486,010	528,286
Deficiency (Excess)	\$ <u>55,038</u>	\$ <u>(5,530)</u>	\$ <u>77,684</u>	\$ <u>(114,290)</u>	\$ <u>(104,415)</u>	\$ <u>(183,307)</u>
Cover Payroll	\$ 4,165,727	\$ 3,680,075	\$ 3,635,925	\$ 3,653,652	\$ 2,828,309	\$ 3,187,355
Contributions as a Percentage of Covered Payroll	13.80%	14.38%	13.61%	13.54%	17.18%	16.57%
Notes to Schedule						
Long-term Rate of Return on Assets	6.00%	6.25%	6.25%	6.25%	6.75%	6.75%
Discount Rate	6.00%	6.25%	6.25%	6.25%	6.75%	6.75%
Salary Increase Assumption	S5 + 3.00%	S5 + 3.00%	S5 + 3.00%	S5 + 3.00%	S5 + 3.25%	S5 + 3.25%
COLA Increase Assumption	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Retirement Age Assumption	NRA	NRA	NRA	NRA	NRA	NRA
Plan Changes	None	None	None	None	None	None

Note: Only six years of GASB 68 data available as of 12/31/2019. The remaining four years of data will be built on a go forward basis.

COLORADO RIVER MUNICIPAL WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
SEPTEMBER 30, 2020

	General Fund			Variance
	Original Budget	Amended Budget	Actual	Positive (Negative)
REVENUES				
Charges for Water	\$ 36,161,680	\$ 36,161,680	\$ 43,151,205	\$ 6,989,525
Recreational	88,000	88,000	250,749	162,749
Debt Service	3,515,434	3,515,434	3,340,617	(174,817)
Investment Earnings	10,000	10,000	73,070	63,070
Operations, Maintenance and Electrical Power	2,089,955	2,089,955	2,045,062	(44,893)
Other	181,000	181,000	1,091,411	910,411
Total Revenues	<u>\$ 42,046,069</u>	<u>\$ 42,046,069</u>	<u>\$ 49,952,114</u>	<u>\$ 7,906,045</u>
EXPENDITURES				
Water Service	\$ 8,909,000	\$ 8,909,000	\$ 8,130,443	\$ 778,557
Salaries, Benefits, & Payroll Taxes	7,681,061	7,681,061	6,357,231	1,323,830
Contracted Services	44,000	44,000	24,000	20,000
Professional Fees	124,000	124,000	138,938	(14,938)
Director Expenses	16,500	16,500	13,283	3,217
Other	829,402	829,402	511,747	317,655
Capital Outlay	321,000	321,000	321,000	0
Transfers Out	24,121,106	24,121,106	34,455,449	(10,334,343)
Total Expenditures	<u>\$ 42,046,069</u>	<u>\$ 42,046,069</u>	<u>\$ 49,952,091</u>	<u>\$ (7,906,022)</u>
Excess of Revenues Over Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	\$ 23	<u>\$ 23</u>
Fund Balance - October 1 (Beginning)			<u>1,221,867</u>	
Fund Balance - September 30 (Ending)			<u>\$ 1,221,890</u>	

APPENDIX B

SELECT INFORMATION RELATING TO
THE CITY OF ODESSA AND THE CITY OF MIDLAND

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CITY OF ODESSA

WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

	Fiscal Year Ended September 30,				
	2020 ⁽¹⁾	2019	2018	2017	2016
Revenues	\$ 70,190,872	\$ 70,652,453	\$ 70,585,430	\$ 60,687,279	\$ 57,306,290
Expense	51,834,048	45,563,171	44,618,720	42,159,496	42,119,570
Net Income ⁽²⁾	\$ 18,356,824	\$ 25,089,282	\$ 25,966,710	\$ 18,527,783	\$ 15,186,720
Water Customers	44,433	43,642	42,839	41,972	40,584
Sewer Customers	36,661	35,969	35,241	34,641	33,536

(1) Unaudited

(2) Does not include depreciation. Does not include transfers to or from Rate Stabilization Equity Account.

COVERAGE

As of September 30, 2020, the City of Odessa has no waterworks and sewer system revenue debt outstanding.

MONTHLY WATER RATES (EFFECTIVE SEPTEMBER 1, 2016)

	Residential ⁽²⁾⁽³⁾	Commercial ⁽²⁾⁽³⁾	Senior Residential ⁽²⁾⁽³⁾
First 2,000 gallons	\$18.87 to 46.83 ⁽¹⁾	\$18.90 to \$46.66 ⁽¹⁾	\$12.03 to \$29.67 ⁽¹⁾
3,000 to 10,000 gallons	5.26/1,000 Gallons	5.28/1,000 Gallons	4.68/1,000 Gallons
11,000 to 20,000 gallons	6.05/1,000 Gallons	6.06/1,000 Gallons	5.45/1,000 Gallons
21,000 to 50,000 gallons	6.20/1,000 Gallons	6.21/1,000 Gallons	5.61/1,000 Gallons
Above 50,000 gallons	6.35/1,000 Gallons	6.36/1,000 Gallons	5.76/1,000 Gallons

(1) Based on meter size.

(2) Outside City limits customers pay 1.5 times the above rates.

(3) Add energy surcharge of \$0.1133 per 1,000 gallons

MONTHLY SEWER RATES (EFFECTIVE SEPTEMBER 1, 2016)

	Residential ⁽¹⁾	Commercial ⁽¹⁾	Senior Residential ⁽¹⁾
First 2,000 gallons	\$12.32 Minimum	\$12.43 Minimum	\$10.96 Minimum
3,000 to 10,000 callons	2.82/1,000 Gallons	3.25/1,000 Gallons	2.51/1,000 Gallons

(1) Outside City limits customers pay 1.5 times the above rates.

CITY OF MIDLAND

WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

	Fiscal Year Ended September 30,				
	2020	2019	2018	2017	2016
Revenues	\$ 87,071,126	\$ 81,134,803	\$ 76,795,738	\$ 66,493,087	\$ 60,546,037
Expense ⁽¹⁾	60,484,458	53,925,255	46,922,896	40,874,555	42,183,654
Net Income	\$ 26,586,668	\$ 27,209,548	\$ 29,872,842	\$ 25,618,532	\$ 18,362,383
Water/Sewer Customers	51,793	44,284	43,653	42,375	41,076

(1) Excludes depreciation.

COVERAGE

As of September 30, 2020, the City of Midland has no waterworks and sewer system revenue debt outstanding.

MONTHLY WATER RATES (EFFECTIVE JULY 1, 2020)

All Customers (except Apartments)	
First 2,000 Gallons	\$ 21.61 (Minimum)
Over 2,001 Gallons up to 10,000 Gallons	6.11 /1,000 gallons
Over 10,001 Gallons up to 25,000 Gallons	8.03 /1,000 gallons
Over 25,000 Gallons	10.80 /1,000 gallons
Residential above 50,000	13.50 /1,000 gallons
Apartments	
First 2,000 Gallons per unit	\$ 17.60 /Unit (Minimum)
Over 2,000 up to 10,000 Gallons per unit	6.11 /1,000 gallons
Over 10,000 up to 25,000 Gallons per unit	8.03 /1,000 gallons
Over 25,000 Gallons per unit	10.80 /1,000 gallons
Above 50,000 (Residential only)	13.50 /1,000 gallons

MONTHLY SEWER RATES (EFFECTIVE JULY 1, 2020)

All Customers Monthly Base Rate (includes 2,000 Gallons per connection/unit)	\$21.79
All Customers Rate Per 1,000 Gallons ⁽¹⁾ (after initial based rate/2,000 gallons)	\$ 0.88

(1) Based on Customer's winter average.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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June 29, 2021

COLORADO RIVER MUNICIPAL WATER DISTRICT
WATER SYSTEM REVENUE REFUNDING BOND,
SERIES 2021,
DATED MAY 1, 2021
\$ _____

AS BOND COUNSEL FOR THE COLORADO RIVER MUNICIPAL WATER DISTRICT (the "Issuer") in connection with the issuance of the Water System Revenue Refunding Bonds, Series 2017 described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature on the dates, and are subject to redemption, 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 Initial Bond (as defined in the Resolution) and substitute Bonds and the issuance and delivery of the Initial Bond, including the executed Initial Bond, and a printed form for the substitute Bonds initially made available by the Issuer for conversion of and exchange for the Initial Bond; and we have examined and relied upon (i) the Issuer's Federal Tax Certificate, of even date herewith, incorporating certain schedules prepared by Hilltop Securities, Inc., Fort Worth, Texas, (ii) the certificate of Hilltop Securities Inc. with respect to the sufficiency of certain funds to accomplish the refunding purposes of the Bonds, and (iii) covenants of the Issuer with respect to arbitrage, the application of proceeds of the Bonds and certain other matters.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Initial Bond and Definitive Bonds have been duly authorized and the Initial Bond has been duly issued and delivered, all in accordance with law, and that, except as may be limited by laws relating to sovereign immunity and to bankruptcy, reorganization, and other similar matters affecting creditors' rights, (i) the covenants and agreements in the Bond Resolution constitute valid and binding obligations of the Issuer, and the Initial Bond constitutes and Definitive Bonds will constitute valid and legally binding special obligations of the Issuer, which, together with other bonds, are secured by and payable from a first lien on and pledge of the "Pledged Revenues" as defined in the Bond Resolution, which include initially the "Net Revenues of the Issuer's Water System", as defined in the Bond Resolution, consisting of certain revenues and income received by the Issuer pursuant to water supply contracts with (a) the Cities of Big Spring, Odessa, and Snyder, Texas, which are currently the "Member Cities", respectively, each of which initially was entered into as of February 23, 1951, and which were authorized at elections held in Big Spring and in Odessa on November 16, 1950, and in Snyder on January 27, 1951, as each of such

water supply contracts was amended, updated, and extended, and restated in its entirety as of February 12, 1982, (b) the water supply contract between the Issuer and the City of Midland, Texas, authorized at an election held in Midland on April 28, 1966, (c) the water supply contract between the Issuer and the City of Stanton, Texas, authorized at an election held in Stanton on May 16, 1967, (d) the water supply contract between the Issuer and the City of San Angelo, Texas, authorized at an election held in San Angelo on May 10, 1969, (e) the three separate Water Supply Facilities and Services Contracts, each dated as of September 1, 1985, between the Issuer and the Cities of Midland and San Angelo, Texas, and the West Central Texas Municipal Water District (which as been assigned in all respects to the City of Abilene, Texas), respectively, in connection with Stacy Reservoir (now renamed and known as O.H. Ivie Reservoir), (f) the Stacy Reservoir Water Transmission Contract entered into as of June 29, 1988, by and between the Issuer and the Cities of Midland and San Angelo, Texas, in connection with transporting water from Stacy Reservoir (now renamed and known as O.H. Ivie Reservoir) to the District and said Cities, (g) the Water Supply Contract between the Issuer and Millersview - Doole Water Supply Corporation, authorized at an election held on July 9, 2001, and (i) all water supply contracts heretofore or hereafter executed between the Issuer and other cities and customers in connection with the Issuer's Water System, and (ii) each of the aforesaid contracts described in (a) through (g), above, is authorized by law, has been duly executed, is valid, and is legally binding upon and enforceable by the parties thereto in accordance with their respective terms and provisions.

THE ISSUER has reserved the right, subject to the restrictions stated in the Bond Resolution, to issue Additional Bonds payable from and secured by a first lien on and pledge of the "Pledged Revenues" on a parity with the Bonds.

THE ISSUER also has reserved the right to amend the Bond Resolution, with the approval of the owners of 51% of the outstanding bonds secured by a first lien on the Pledged Revenues, subject to the restrictions stated in the Bond Resolution.

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that accordingly, interest on the Bonds will not be included as an individual or corporate 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 Bonds and the use of the property refinanced therewith. 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.

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, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that a portion of the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by Section 55 of the Code.

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.

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 under the Constitution and laws of the State of Texas, and with respect to the exemption of the interest on the Bonds from federal income taxes, 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 its Member Cities, or the adequacy of the "Pledged Revenues," and have not assumed any responsibility with respect thereto. 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.

Respectfully,

Financial Advisory Services
Provided By

