

PRELIMINARY OFFICIAL STATEMENT

Dated October 6, 2016

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

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

**THE BONDS WILL BE DESIGNATED AS "QUALIFIED
TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS**

\$4,370,000*

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1
(A political subdivision of the State of Texas located within Bell County)
WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016

Dated: October 15, 2016

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

Interest Accrues from the Date of Initial Delivery

PAYMENT TERMS . . . The \$4,370,000* Bell County Water Control and Improvement District No. 1 Water System Revenue Refunding Bonds, Series 2016 (the "Bonds") will be dated October 15, 2016 (the "Dated Date"). Interest on the Bonds will accrue from the date of initial delivery and will be payable on January 10, 2017 and on each July 10 and January 10 thereafter. The Bonds will be issued in denominations of \$5,000 of principal amount or any integral multiple thereof. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds are being issued pursuant to the provisions of: (i) the Constitution and the general laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended, and (ii) an order (the "Bond Order") adopted by the Board of Directors of the Bell County Water Control and Improvement District No. 1 (the "District") and a pricing certificate (the "Pricing Certificate") executed pursuant to the Bond Order. The Pricing Certificate and the Bond Order are referred to collectively as the "Order."

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

The District intends to utilize the book-entry-only system of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS – Book-Entry-Only System" herein).

PURPOSE . . . The Bonds are being issued to (i) refund a portion of the District's outstanding bonds as described in SCHEDULE I attached hereto (the "Refunded Bonds") for debt service savings and (ii) pay the costs of issuance on the Bonds. See "THE BONDS – Authorization and Purpose."

The District has applied for insurance on the Bonds and will consider the purchase of such insurance after an analysis of bids has been made.

CUSIP PREFIX: 078043
MATURITY SCHEDULE
See Inside Cover Page

LEGALITY . . . The Bonds are offered, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of the State of Texas and the approval of certain legal matters by Bracewell LLP, Bond Counsel, Austin, Texas. Certain legal matters will be passed upon for the Underwriter by its counsel, Andrews Kurth Kenyon LLP, Austin, Texas. Delivery of the Bonds is expected through the facilities of DTC on November 10, 2016.

BOK FINANCIAL SECURITIES, INC.

* Preliminary, subject to change.

MATURITY SCHEDULE*

<u>7/10 Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Numbers⁽¹⁾</u>
2017	\$ 70,000			
2018	385,000			
2019	620,000			
2020	285,000			
2021	435,000			
2022	190,000			
2023	190,000			
2024	195,000			
2025	195,000			
2026	205,000			
2027	210,000			
2028	215,000			
2029	220,000			
2030	230,000			
2031	235,000			
2032	240,000			
2033	250,000			

(Interest Accrues from the Date of Initial Delivery)

*Preliminary, subject to change.

- (1) CUSIP a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds maturing on and after July 10, 2027, in whole or in part, in integral multiples of \$5,000 on July 10, 2026 or any date thereafter at a price of the par value thereof plus accrued interest to the date of redemption (see the “THE BONDS – Redemption Provisions – Optional Redemption”). Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Underwriter aggregates any maturities as Term Bonds.

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), this document constitutes an Official Statement of the District with respect to the Bonds that has been deemed “final” by the District as of its date except for the omission of the information permitted by the Rule.

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

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

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

None of the District, the Financial Advisor or the Underwriter make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Bonds.

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by more detailed information appearing elsewhere in this Official Statement. The summary should not be detached and should be used in conjunction with the more complete information contained herein.

THE BONDS

<i>Description</i>	Bell County Water Control and Improvement District No. 1 Water System Revenue Refunding Bonds, Series 2016, in the aggregate principal amount of \$4,370,000* maturing as serial bonds on July 10 in the years 2017 through and including 2033 in the principal amounts set forth on the inside cover page unless the Underwriter aggregates any maturities as Term Bonds. See “THE BONDS – Description”.
<i>Redemption</i>	Bonds maturing on and after July 10, 2027 are subject to redemption at the option of the District prior to their stated maturity dates on July 10, 2026, or on any date thereafter at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Redemption Provisions – Optional Redemption.” Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Underwriter aggregates any maturities as Term Bonds.
<i>Use of Proceeds</i>	Proceeds of the Bonds will be used to refund certain outstanding debt obligations of the District for debt service savings and to pay for costs associated with the issuance of the Bonds. See “PLAN OF FINANCING – Authorization and Purpose” and “SCHEDULE I – Schedule of Refunded Bonds.”
<i>Authority for Issuance</i>	The Bonds are issued pursuant to the Texas Constitution and the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, an order (the “Bond Order”) adopted by the District and a pricing certificate (the “Pricing Certificate”) executed by the pricing officer as designated in the Bond Order. The Pricing Certificate and the Bond Order are referred to collectively as the “Order.” See “PLAN OF FINANCING – Authorization and Purpose.”
<i>Source and Security for Payment</i>	The Bonds, together and on a parity with any outstanding Bonds Similarly Secured, are payable from and secured by a pledge of the Pledged Revenues of the District’s water supply and transmission system. See “THE BONDS – Source of Payment and Security” and “THE WATER SYSTEM.”
<i>Qualified Tax-Exempt Obligations</i>	The District will designate the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and will represent that the total amount of tax-exempt obligations, including the Bonds, is not reasonably expected to exceed \$10,000,000 and that it has not designated more than \$10,000,000 of qualified tax-exempt obligations (including the Bonds) during calendar year 2016. See “TAX MATTERS – Purchase of Tax-Exempt Obligations by Financial Institutions”.
<i>Bond Counsel</i>	Bracewell LLP, Austin, Texas.
<i>Financial Advisor</i>	Specialized Public Finance Inc., Austin, Texas.
<i>Underwriter’s Counsel</i>	Andrews Kurth Kenyon LLP, Austin, Texas.
<i>Paying Agent/Registrar</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

*Preliminary, subject to change.

THE DISTRICT

<i>Description</i>	The Bell County Water Control and Improvement District No. 1 (the “District”) is located in Bell County, Texas, and is a political subdivision of the State of Texas. The District was created by an order adopted by the Board of Water Engineers of the State of Texas on March 10, 1952, pursuant to the authority conferred by Chapter 3A, Title 128, Vernon’s Texas Civil Statutes (codified as Chapter 51, Texas Water Code). The District operates as a water control and improvement district under the provisions of Chapter 9005, Texas Special District Local Laws Code, Chapters 49 and 51, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. The District covers a significant portion of Bell County and the majority of the City of Killeen and contains approximately 18,589 acres. See “THE DISTRICT.”
<i>Population</i>	250,000 (source: the District).
<i>Rating and Insurance</i>	An application for a rating on the Bonds has been made to Moody’s Investors Service, Inc. (“Moody’s”). Moody’s maintains a rating of “A2” on the District’s previously issued unenhanced bonds secured by the Pledged Revenues. The District has applied for insurance on the Bonds and will consider the purchase of such insurance after an analysis of bids has been made.
<i>Location</i>	The District is entirely within Bell County, Texas (the “County”). See “THE DISTRICT.”
<i>Payment Record</i>	The District has not defaulted on any previously issued bonds.

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OFFICIALS, STAFF AND CONSULTANTS

OFFICIALS

<u>City Council</u>	<u>Term Expires</u>	<u>Occupation</u>
John Blankenship President	May 2020	Retired
Don Farek Vice-President	May 2020	Home Builder
Robert M. Jacobs Secretary	May 2020	Veterinarian
J. Michael Miller Director	May 2018	Self-Employed, Insurance
Allen Cloud Director	May 2018	Self-Employed, Real Estate

ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Richard Garrett	General Manager	2 Years

CONSULTANTS AND ADVISORS

Engineers LAN Engineering
Houston, Texas

Camp Dresser & Mckee Inc.
Austin, Texas

Bond Counsel Bracewell & Giuliani, LLP
Austin, Texas

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

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PRELIMINARY OFFICIAL STATEMENT

\$4,370,000*

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1 *(A political subdivision of the State of Texas located within Bell County)* **WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016**

This Official Statement provides certain information in connection with the issuance by Bell County Water Control and Improvement District No. 1 (the "District") of its \$4,370,000* Water System Revenue Refunding Bonds, Series 2016 (the "Bonds").

This Official Statement includes descriptions, among others, of the Bonds and the Order, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Specialized Public Finance Inc. (the "Financial Advisor") at 248 Addie Roy Road, Suite B-1-2, Austin, Texas 78746.

PLAN OF FINANCING

AUTHORIZATION AND PURPOSE . . . The Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, an order (the "Bond Order") adopted by the District and a pricing certificate (the "Pricing Certificate") executed by the pricing officer as designated in the Bond Order. The Bond Order and the Pricing Certificate are referred to herein collectively as the "Order." Proceeds of the Bonds will be used to refund certain currently outstanding debt obligations of the District (the "Refunded Bonds") for debt service savings and to pay for costs associated with the issuance of the Bonds. See "SCHEDULE I – Schedule of Refunded Bonds" for a description of the Refunded Bonds.

REFUNDED BONDS . . . The Refunded Bonds and the interest due thereon are to be paid on their respective scheduled interest payment dates and redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (the "Escrow Agent"), pursuant to an Escrow Agreement (the "Escrow Agreement"), between the District and the Escrow Agent.

The Order provides that from the proceeds of the sale of the Bonds, the District will deposit with the Escrow Agent an amount, together with other lawfully available funds, if any, which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a separate escrow fund (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Grant Thornton LLP, Certified Public Accountants, will verify at the time of delivery of the Bonds to the Underwriter that the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on the respective interest payment dates and scheduled redemption date. Such principal of and interest on the Federal Securities will not be available to pay debt service on the Bonds (see "OTHER INFORMATION – Verification of Arithmetical Computations").

THE BONDS

DESCRIPTION . . . The Bonds mature on the dates and in the principal amounts set forth on the inside cover page. The Bonds will be dated October 15, 2016 and interest will accrue from the date of initial delivery, will be payable on January 10, 2017 and on each July 10 and January 10 thereafter until the earlier of maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued pursuant to the Order, in fully registered form only, in denominations of \$5,000 of principal amounts or any integral multiple thereof and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the book-entry-only system described herein.

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

*Preliminary, subject to change.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York (“DTC”), New York, New York, while the Bonds are registered in its nominee’s 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

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

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility

of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

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

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

Bond Reserve Fund – Bonds Similarly Secured are further secured by monies and investments on deposit in the Bond Reserve Fund established to provide payment of debt service on Bonds Similarly Secured in the event that there are insufficient funds available for such purpose in the Principal and Interest Fund. The District covenants in the Order to accumulate and maintain an amount equal to the average annual debt service on outstanding Bonds Similarly Secured (the “Required Reserve”) as calculated on the date of issuance of a series of Additional Parity Bonds. To the extent necessary to increase the amount on deposit in the Bond Reserve Fund to the Required Reserve, the District is required to make monthly deposits to the Bond Reserve Fund equal to 1/60th of the Required Reserve.

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

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

AD VALOREM TAX . . . The District is empowered to levy an ad valorem tax to pay maintenance and operation expenses and to issue bonds payable from ad valorem taxes, subject to the approval of voters in the District. **The District has not voted a maintenance tax and has no authorized but unissued ad valorem tax bonds.** No representation is made concerning whether

the District will vote a maintenance tax or ad valorem tax bonds in the future; however, the District has no current plans to hold an election for this purpose.

REDEMPTION PROVISIONS . . . *Optional Redemption.* The District reserves the right, at its option, to redeem the Bonds maturing on and after July 10, 2027, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on July 10, 2026 or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of such Bonds are redeemed at any time, the maturities of such Bonds and the principal amounts thereof to be redeemed shall be selected by the District. The Paying Agent/Registrar (or DTC while the Bonds are in book-entry-only form) shall determine by lot the Bonds, or portion thereof, within such maturity to be redeemed.

Notice of Redemption. Not less than 30 days prior to a redemption date for the Bonds, the District will cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Registered Owners of the 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. SUBJECT TO THE DISTRICT'S RIGHT TO GIVE A CONDITIONAL NOTICE OF REDEMPTION AS DESCRIBED IN THE NEXT PARAGRAPH. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH PORTION THEREOF SHALL CEASE TO ACCRUE.

The District reserves the right to give notice of its election or direction to redeem Bonds pursuant to an optional redemption conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) that the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Registered Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain Outstanding and the rescission shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

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

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

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

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

All Bonds shall be exchangeable upon presentation and surrender thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is

authorized to authenticate and deliver exchange Bonds. Each Bond so delivered shall be entitled to the benefits and security of the Order to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

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

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

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

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

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

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

ISSUANCE OF ADDITIONAL DEBT . . . The District does not have any authorized but unissued bond authorization remaining and does not anticipate issuing additional debt within the next six months.

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

The Order provides no additional remedies to a registered owner. Specifically, the Order does not provide or an appointment of a trustee to protect and enforce the interests of the registered owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus is a remedy that may have to be enforced from year to year by the registered owners. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to observe and perform the covenants and obligations in the Order. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court (the "Court") ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued," in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers water districts and relates to contracts entered into by water districts for providing goods or services to water districts. The District is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act. As noted above, the registered owners may seek the remedy of mandamus to enforce the obligations of the District under the Order. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, Texas courts have held that mandamus may be used to

require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract.

Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District’s public purpose property. The registered owners themselves cannot foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Bonds. In addition, the enforceability of the rights and remedies of the registered owners may be limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions. See “RISK FACTORS – Bankruptcy Limitation to Registered Owners’ Rights.”

LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

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

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

SOURCES AND USES OF FUNDS . . . The proceeds from the sale of the Bonds, together with other lawfully available funds of the District, will be applied approximately as follows:

Sources:	
Principal Amount of the Bonds	\$
Net Original Issue Premium/(Discount)	
Transfer from Reserve Fund	
Transfer from Debt Service Fund	
Accrued Interest	
Total Sources of Funds	\$
Uses:	
Deposit to Escrow Fund	\$
Underwriter’s Discount	
Costs of Issuance	
Deposit to Debt Service Fund	
Total Uses of Funds	\$

THE DISTRICT

GENERAL . . . The District operates the Water System and a sanitary sewer system (the “Sanitary Sewer System”), each of which is operated as a separate enterprise on a separate fiscal basis. In addition, the District has issued certain special project bonds for the construction of water and wastewater facilities (the “Special Projects”), which are operated as separate enterprises on a separate fiscal basis from the Water System and the Sanitary Sewer System. See “Special Project Bonds” below. Revenues of the Water System are not pledged to secure payment of debt service on obligations (or for payment of operation and maintenance costs) related to the Sanitary Sewer System or the Special Projects; and no revenues of the Sanitary Sewer System or of the Special Projects are pledged to secure payment of debt service on obligations (or for payment of operation and maintenance costs) related to the Water System.

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

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

The District presently contains 18,589 acres which includes a portion of the City of Killeen (84% of the District’s area) and a portion of Fort Hood (16% of the District’s area). No financial assistance from any federal or state government agency is pledged or expected to provide for the payment of debt service on the Bonds.

The District serves a population in excess of 250,000 people and can treat and deliver over 90 million gallons of water daily.

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

The District’s drinking water comes from Lake Belton, a surface water supply. The purposes of the Lake Belton are flood control and for conservation (water supply). Lake Belton has a capacity of 887,000 acre-feet of water, of that amount 372,000 acre-feet is reserved for water supply. One acre-foot equals one acre of land covered with water one foot deep, or 325,850 gallons of water.

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

In March 2014, the district issued new bonds to construct a new 17mgd water treatment plant on Lake Stillhouse Hollow, in Bell County, to serve the Cities of Killeen, Harker Heights, Copperas Cove, WCID No 3, and 439 Water Supply Corporation. Construction is currently in the engineering design phase.

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

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SANITARY SEWER SYSTEM . . . The District operates a Sanitary Sewer System as a separate enterprise apart from the operation of the Water System. No revenues of the Sanitary Sewer System are pledged to secure payment of debt on obligations (or for payment of operation and maintenance costs) related to the Water System. As of August 1, 2016, the District’s outstanding indebtedness of the Sanitary Sewer System was as follows:

Issue	Outstanding Principal Amount
Sanitary Sewer System Revenue Refunding Bonds, Series 2014	\$ 28,800,000

SPECIAL PROJECT BONDS . . . The District has issued \$6,020,000 of special project bonds (the “Special Project Bonds”) for the construction of water and wastewater facilities that are secured by and payable solely from certain revenues deposited to a replacement reserve fund (the “Contract Fund”) created under certain water supply and sanitary sewer service contracts between the District and the United States of America. As of August 1, 2016, the District’s outstanding indebtedness of such Special Project Bonds was as follows:

Issue	Outstanding Principal Amount
Special Project Refunding Bonds, Taxable Series 2013A (Water Facilities Project)	\$ 2,095,000
Special Project Refunding Bonds, Taxable Series 2013B (Sewer Facilities Project)	2,830,000
Total	\$ 4,925,000

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

THE WATER SYSTEM

GENERAL . . . The Water System is operated on property and, in part, through facilities leased by the District from the United States of America, acting through the Secretary of the Army under a lease entered into in February, 1956 as amended by Supplemental Agreement #3 executed on December 28, 2004, and expiring on December 31, 2050 (the “Lease”). The Lease requires the District to supply water to Fort Hood. Upon expiration or earlier termination of the Lease, the leased property (with the exception of Plants No. 2, 3 and 4) is to revert to the United States. The Lease payments are currently a fixed annual sum of \$20,455, payable in monthly installments.

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

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

The raw water supply facilities of the Water System involve primarily an intake tower and a pumping station situated on Lake Belton and three pipelines which convey the raw water from Lake Belton to mixing chambers in the treatment works. The treatment works consist of several components, usually referred to as Plant No. 1, Plant No. 2, Plant No. 3 and Plant No. 4. Plant No. 1 was constructed in 1956, and has a treatment capacity of approximately 11.5 million gallons of water per day. The principal elements of Plant No. 1 are flocculation chambers, settling basins, recarbonation burners, rapid sand filters and various pumps, support facilities, chemical facilities, electrical and control systems. In 1965, additions to the treatment works (Plant No. 2) were installed to increase the treatment capacity by approximately 17 million gallons of water per day, thus resulting in a combined treatment capacity of 28.5 million gallons per day. The additional components were designed to permit either independent or connective flows through the two plants. In 1978, additions to the treatment works (Plant No. 3) were installed to increase the treatment capacity by approximately 25 million gallons of water per day, thus resulting in a combined treatment capacity of 53.5 million gallons per day. In 1997, additions to the treatment works (Plant No. 4) were installed to increase the treatment capacity by approximately 27 million gallons of water per day, thus resulting in a combined treatment capacity of 80.5 million gallons per day. The District completed a final 10 million gallons per day expansion in 2004, which increased treatment capacity to 90.5 million gallons per day.

Currently, four pipelines convey water from the treatment works to the District’s customers. Two of the pipelines, a 30-inch pipeline constructed in 1956 and a 24-inch pipeline constructed in 1965, run initially to the town of Nolanville, approximately seven miles from the treatment plant where the 30-inch pipeline intercepts a 24-inch and an 18-inch pipeline. From this point, a

36-inch pipeline, a 24-inch pipeline and the 18-inch pipeline run parallel for approximately 2 miles and connects with a new 36-inch ductile iron pipeline installed in 2004 and an 18-inch pipeline which runs approximately eight miles where they pass two five million gallon ground storage tanks and the Killeen Booster Station and proceed to terminate on Fort Hood. In 1970, a 21-inch pipeline was installed from the treatment plant on Lake Belton to serve the City of Belton. This pipeline is approximately seven miles long. In 1988, a 48-inch high pressure pipeline was constructed from Plant No. 3 nine miles to two ground storage tanks; from there a 54-inch line delivers water six miles to a termination point on Fort Hood. At this termination point, all of the District's pipelines are connected to three five million gallon ground storage reservoirs. In 2007, construction began (and has been completed) on a 36-inch new pipeline to replace the existing 24-inch pipeline which runs from the City of Nolanville to the City of Killeen storage tanks and terminates on Fort Hood at the 3 five million gallons storage tanks. This project allows the District to meet its contractual obligations to all its members. The District has no responsibility for the distribution networks of its customers. The rate of flow from the pipelines of the District to the customer's storage tanks is controlled by a supervisory control and data acquisition system that regulates the flow as needed by the customers.

The District will undertake the construction of a new 17 million gallon per day water treatment plant and conveyance facilities to be located on Lake Stillhouse, including a new 36-inch pipeline from the plant to the City of Killeen, with proceeds of bonds issued in 2014. The new project will serve the City of Killeen, the City of Copperas Cove, the City of Harker Heights, the Bell County Water Control and Improvement District #3 and 439 Water Supply Corporation. The project is currently in the engineering design phase.

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

WATER CONTRACTS . . . The District is under contract to sell water to the United States of America (for use at Fort Hood), and to the Cities of Killeen, Copperas Cove, Harker Heights and Belton, Bell County Water Control and Improvement District No. 3 and 439 Water Supply Corporation. The following table sets forth the quantities of water sold to each of the seven customers identified in the preceding sentence during the fiscal year ended April 30, 2016, and the amounts paid by such customers to the District during such period for water purchased from the District:

Customer	Quantity Delivered (Billed)	Water Sales Revenue	Percentage of Sales Revenue
Fort Hood	1,519,081,800	\$ 949,371	13%
City of Belton	1,035,663,740	646,973	9%
City of Copperas Cove	1,363,295,000	852,310	12%
City of Harker Heights	1,530,178,000	955,523	13%
City of Killeen	5,637,982,000	3,523,009	49%
WCID #3	218,592,700	136,542	2%
439 Water Supply Corp.	288,182,650	179,914	2%
Total	11,592,975,890	\$ 7,243,642	100%

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

The Amended and Restated Water Supply Contracts, dated as of April 1, 2004 (the "Water Contracts"), by and between the District and each of its six civilian resale water customers (the "Civilian Resale Customers") contain substantially similar terms. See "APPENDIX D – Summary of Certain Provisions of the Water Contracts." Pursuant to their respective Water Contracts, the Civilian Resale Customers have each agreed to pay fixed charges, as described in the Water Contracts, that, in the aggregate, are sufficient to pay the debt service on the District's Water System debt. Under these Water Contracts, the fixed charges are being paid by the Civilian Resale Customers in accordance with the following approximate percentages:

City of Killeen.....	48%
City of Copperas Cove.....	17%
City of Harker Heights.....	18%
City of Belton.....	4%
Bell County WCID #3.....	5%
439 Water Supply Corp.....	8%

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

CUSTOMERS OF THE WATER SYSTEM . . . For the fiscal year ended April 30, 2016, the Cities of Killeen, Copperas Cove, Belton and Harker Heights (the "Major Customers") accounted for approximately 83% of the District's aggregate water sales revenues.

See “APPENDIX E – Information Relating to the Major Customers” for additional information regarding the Major Customers. Because they represent less than 5% of the total water sales of the District, additional information regarding Bell County Water Control and Improvement District No. 3 and 439 Water Supply Corporation has not been included in APPENDIX E of this Official Statement.

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

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

Killeen was founded in 1882 by the Santa Fe Railroad and named in honor of a civil employee of the railroad, Frank P. Killeen. In 1884, Killeen had a population of 350 and consisted of a post office, a cotton gin and two grain mills. The 1941 population of 1,265 rose to 7,100 in 1950, due primarily to the activation of Fort Hood, a military base on Killeen’s northern border, which began functioning in 1943 and was designated a permanent military installation in 1950. Killeen has noted significant population increases. Their 2000 population was 86,911 and has grown steadily since then to a 2010 census population of 127,921.

Fort Hood – The U.S. Army installation Fort Hood is located on the west and north of Killeen. Comprised of 335 square miles, it is one of the largest United States Military installations in the world. Fort Hood is currently home of III Corps Headquarters, the 1st Cavalry Division, the Fourth Infantry Division, 13th Corps Support Command, 3rd Signal Brigade, 21st Air Cavalry Brigade, 89th Military Police Brigade, 504th Military Intelligence Brigade, 13th Finance Group, 3rd Personnel Group and other units and detachments. West Fort Hood is the home of the U.S. Army’s Operational Test Command.

Fort Hood is estimated to provide over \$10 Billion in economic impact annually to the Texas State economy. The total population on base (officers and enlisted personnel) is currently over 50,000. The District supplies substantially all of Fort Hood’s water and wastewater service needs.

City of Copperas Cove – The City of Copperas Cove (“Copperas Cove”), located approximately 8 miles west of Fort Hood, is a rapidly growing residential center. The 2000 census population of Copperas Cove was 29,592, as compared with the 2010 census population of 32,032. The rapid growth is believed to be primarily attributable to the demand for family housing of the active military personnel assigned to Fort Hood and retired military personnel who desire to live near the major military establishment to utilize military retirement services. The basic business and industrial establishments of Copperas Cove are believed to be related to military activity at Fort Hood or residential building. Copperas Cove currently obtains all of its water from the District.

City of Harker Heights – The City of Harker Heights (“Harker Heights”) is a predominantly residential community located on U.S. Highway 190 adjacent to Killen’s east city limits. Harker Heights encompasses an area of 3,178 acres. Its economic base is closely linked to that of Killeen, Fort Hood and Copperas Cove. Recently, several new business establishments have been added to Harker Heights, including a bank, a theater, a department store a grocery store, and other retail stores. Harker Heights residents are principally employed in the adjacent cities or are retired military personnel. Its 2010 census population was 26,700. Harker Heights currently obtains all of its water from the District.

City of Belton – The City of Belton (“Belton”) is located in central Texas on Interstate Highway 35 approximately 17 miles east of the District, 45 miles south of Waco and 60 miles north of Austin. Belton is the county seat of Bell County and is an agricultural, governmental and commercial center in the area. A significant portion of Belton’s population is comprised of retired military personnel once stationed at Fort Hood. Industrial activities in the Belton area include the manufacturing of insulation, furniture, agricultural machinery and ready mix concrete. Its 2010 census population was 18,216. Belton currently obtains all of its water from the District.

Bell County Water Control and Improvement District No. 3 – Bell County Water Control and Improvement District No. 3 (“WCID No. 3”) was created to provide a municipal water supply and sanitary sewer system for the City of Nolanville (“Nolanville”). Nolanville is located on U.S. Highway 190 between Belton and Killeen. Nolanville is primarily a residential community for people employed in Killeen and Fort Hood and retired military personnel. The predominant living structures in the area are mobile homes and the residents of Nolanville are more transient than those in the surrounding municipalities. WCID No. 3 covers an area of approximately one square mile. WCID No. 3’s estimated population for 2012 is less than 3,000 people. WCID No. 3 currently obtains all of its water from the District.

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

RISK FACTORS

IMPACT OF FORT HOOD ON LOCAL ECONOMY . . . The principal source of funds to pay the principal of and interest on the Bonds is expected to be payments received by the District from the customers of the System, excluding Fort Hood. The regional economy is significantly affected by the large number of military personnel stationed at Fort Hood. Any substantial or sustained reduction in the population of Fort Hood (whether as a result of troop deployments for military engagements or as a result of base realignments and restructuring of the size and location of active military bases) could adversely affect the regional economy and the financial condition of the customers. A substantial or sustained reduction in the number of military personnel stationed at Fort Hood could also have a direct adverse effect on Fort Hood's demand for water and wastewater services under the contract with the United States Army (the "Fort Hood Contract"), which would result in a reduction in revenues to the District for such services.

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

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

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

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

ENFORCEABILITY OF WATER CONTRACTS . . . The Water Contracts referred to under "THE WATER SYSTEM – Water Contracts" obligate the District's Civilian Water Customers to make certain payments related to the cost of financing capital expenditures of the District based on the amounts of water supply services to which such Customers are entitled, even if such Customers do not take or receive water supply services from the District. There is, however, no guarantee or assurance that a court would order the Civilian Water Customers to make payments to the District if no water supply services were provided to such Customers or if services were reduced. Further, there is no guarantee or assurance that such Customers will continue to utilize the District as their exclusive source of water.

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

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DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 4/30	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
	2017	\$ 2,870,000	\$ 3,497,585	\$ 6,367,585	\$ -	\$ 33,825	
2018	2,410,000	3,303,283	5,713,283	70,000	105,188	175,188	5,888,470
2019	2,405,000	3,222,782	5,627,782	385,000	100,638	485,638	6,113,420
2020	2,215,000	3,154,876	5,369,876	620,000	90,588	710,588	6,080,463
2021	2,645,000	3,078,385	5,723,385	285,000	81,538	366,538	6,089,922
2022	2,590,000	2,986,021	5,576,021	435,000	74,338	509,338	6,085,358
2023	2,960,000	2,886,708	5,846,708	190,000	68,088	258,088	6,104,795
2024	3,090,000	2,778,997	5,868,997	190,000	64,288	254,288	6,123,284
2025	3,220,000	2,657,833	5,877,833	195,000	60,194	255,194	6,133,027
2026	3,360,000	2,522,429	5,882,429	195,000	55,563	250,563	6,132,992
2027	3,495,000	2,380,726	5,875,726	205,000	50,563	255,563	6,131,288
2028	3,615,000	2,236,031	5,851,031	210,000	44,850	254,850	6,105,881
2029	3,765,000	2,083,743	5,848,743	215,000	38,475	253,475	6,102,218
2030	3,700,000	1,926,162	5,626,162	220,000	31,950	251,950	5,878,112
2031	3,220,000	1,770,757	4,990,757	230,000	25,200	255,200	5,245,957
2032	3,345,000	1,626,436	4,971,436	235,000	18,225	253,225	5,224,661
2033	3,495,000	1,475,195	4,970,195	240,000	11,100	251,100	5,221,295
2034	3,320,000	1,307,463	4,627,463	250,000	3,750	253,750	4,881,213
2035	3,765,000	1,130,338	4,895,338	-	-	-	4,895,338
2036	3,945,000	952,381	4,897,381	-	-	-	4,897,381
2037	4,140,000	765,050	4,905,050	-	-	-	4,905,050
2038	4,345,000	552,925	4,897,925	-	-	-	4,897,925
2039	4,575,000	329,925	4,904,925	-	-	-	4,904,925
2040	4,790,000	107,775	4,897,775	-	-	-	4,897,775
	<u>\$ 81,280,000</u>	<u>\$ 48,733,801</u>	<u>\$ 130,013,801</u>	<u>\$ 4,370,000</u>	<u>\$ 958,356</u>	<u>\$ 5,328,356</u>	<u>\$ 135,342,158</u>

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

(2) Interest on the Bonds calculated at a net interest cost of 2.72% for purposes of illustration. Preliminary, subject to change.

Average Annual Debt Service Requirements (2017-2040).....	\$ 5,639,257	(1)
Maximum Annual Debt Service Requirements (2017).....	\$ 6,401,410	(1)

(1) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

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INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT

Available District funds are invested as authorized by Texas law and 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.

Under Texas law, the District is authorized to invest its funds in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; (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) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256 of the Texas Government Code, as amended) (the "PFIA") (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (5) or clause (13) or in any other manner and amount provided by law for District deposits, or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in 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 primary government securities dealer or a financial institution doing business in the State; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) 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 (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper that is rated at least "A-1" or "P-1" or the equivalent by either a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by the U.S. or state bank; (12) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invests exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The District may invest in obligations described in the previous paragraph directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: 1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage backed security collateral and pays no principal; 2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage backed security and bears no interest; 3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and 4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in the market index.

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, maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy

Statement will describe its objectives concerning: 1) suitability of investment type, 2) preservation and safety of principal, 3) liquidity, 4) marketability of each investment, 5) diversification of the portfolio, and 6) yield.

Under Texas law 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 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, and any additions and changes to market value and the ending value of each pooled fund group, 4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, 5) the maturity date of each separately invested asset, 6) the account or fund or pooled fund group for which each individual investment was acquired, and 7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest District funds without express written authority from the Board of Directors.

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

CURRENT INVESTMENTS

As of June 30, 2016, the District’s investable funds were invested in the following categories:

	Market Value	% of Total
<u>Water System Investments</u>		
TexPool	\$ 1,710,526	2.64%
CDARS	6,015,724	9.28%
Regions Bank Investments	48,983,037	75.56%
ExtraCo Banks	8,120,022	12.53%
	<u>\$ 64,829,309</u>	<u>100.00%</u>
		% of
<u>Sewer System Investments</u>	Market Value	Total
ExtraCo Banks	\$ 4,449,121	34.00%
TexPool	5,116,518	39.10%
Regions Bank Investments	3,519,043	26.89%
	<u>\$ 13,084,681</u>	<u>100.00%</u>

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LEGAL MATTERS

LEGAL OPINIONS . . . The District will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, with respect to the Bonds issued in compliance with the provisions of the Order. The form of Bond Counsel's opinion is attached hereto as APPENDIX A.

Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions "PLAN OF FINANCING," "THE BONDS" (except under the subcaptions "Book-Entry Only System," "Future Borrowing," "Ad Valorem Tax," "DTC Redemption Provisions," "Issuance of Additional Debt," "Remedies in Event of Default and "Sources and Uses of Funds"), "LEGAL MATTERS – Legal Opinions," "LEGAL MATTERS – Registration and Qualification of Bonds for Sale," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaptions "Availability of Information" and "Compliance With Prior Undertakings") and APPENDIX C and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Andrews Kurth Kenyon LLP, Austin, Texas. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished to the Underwriter by the District. The legal fee to be paid Bond Counsel and Underwriter's Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

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

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

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

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

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

TAX MATTERS

TAX EXEMPTION . . . In the opinion of Bracewell LLP, Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States, and requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The District has covenanted in the Order that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District’s Financial Advisor and the Underwriter with respect to matters solely within the knowledge of the District, the District’s Financial Advisor and the Underwriter which Bond Counsel has not independently verified. Bond Counsel will further rely on the report (the “Report”) of Grant Thornton LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the District should fail to comply with the covenants in the Ordinance or if the foregoing representations or the report should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of, interest on, or disposition of the Bonds.

The Code also imposes a 20% alternative minimum tax on the “alternative minimum taxable income” of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation’s regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC), includes 75% of the amount by which its “adjusted current earnings” exceeds its other “alternative minimum taxable income.” Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation’s “adjusted current earnings,” ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Bond Counsel’s opinion is based on existing law, which is subject to change. Such opinion is further based on Bond Counsel’s knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinion is not a guarantee of result and is not binding on the Service; rather, such opinion represents Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinion. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local bonds is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

PURCHASE OF TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution’s investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) also provides an exception for financial institutions for tax-exempt obligations that are properly designated by an issuer as “qualified tax-exempt obligations.”

The Bonds will be designated as “qualified tax-exempt obligations” based, in part, on the District’s representation that the amount of the Bonds, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than “qualified 501(c)(3) bonds” or any obligations issued to currently refund any obligation to the extent the amount of the refunding obligation did not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the District during 2016, is not expected to exceed \$10,000,000. Further, the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in “qualified tax-exempt obligations” (including the Bonds) during 2016.

Notwithstanding the designation of the Bonds as “qualified tax-exempt obligations” under this exception, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

COLLATERAL TAX CONSEQUENCES . . . Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM . . . The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bond.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT BONDS . . . The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the “Original Issue Discount Bonds”). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “TAX MATTERS – Tax Exemption” and “– Additional Federal Income Tax Considerations – Collateral Tax Consequences” and “– Tax Legislative Changes” generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Issuer nor Obligation Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that

differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

TAX LEGISLATIVE CHANGES . . . Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the captions “THE WATER SYSTEM,” “DEBT SERVICE REQUIREMENTS,” and “INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT – Current Investments” and in APPENDICES B and E. The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2016. The District will provide the updated information in an electronic format, all as prescribed by the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Order or to such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

CIVILIAN RESALE CUSTOMERS . . . The Water Supply Contracts between the District and each of the Civilian Resale Customers require that each such Customer provide annually to the MSRB, within 180 days after the end of their respective fiscal years, financial information and operating data of the general type included in their respective annual financial statements for so long as such Civilian Water Customer is considered an “obligated person” within the meaning of the Rule. The financial statements of each of the Civilian Water Customers are required to be (i) prepared in accordance with the accounting principles such Customer may be required to employ from time to time pursuant to State law, and (ii) audited, if such Customer commissions an audit of such statements and the audit is completed within the required time. If the audit is not completed within the required time, such Customer shall provide the audited financial statements to the MSRB when and if it becomes available.

NOTICE OF CERTAIN EVENTS . . . The District will provide notice to the MSRB of any of the following events with respect to the Bonds in a timely manner and not more than 10 business days after the occurrence of the event: (i) principal and interest payment delinquencies; (ii) nonpayment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (vii) modifications to rights of Owners, if material; (viii) bond calls, if material and tender offers; (ix) defeasance; (x) release, substitution, or sale of property securing repayment of the Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (xiii) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material.

For these purposes, any event described in the immediately preceding clause (xii) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the

existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets of business of the District.

AVAILABILITY OF INFORMATION . . . The District has agreed to provide the information only to the MSRB, accompanied by identifying information and in an electronic format, as prescribed by the MSRB. The MSRB has prescribed that such information must be filed with the MSRB pursuant to its Electronic Municipal Market Access (“EMMA”) System. The MSRB has made the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

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

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the District and the Civilian Resale Customers have complied in all material respects with its continuing disclosure agreements made by it in accordance with the Rule.

LITIGATION

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

RATING

An application for a rating on the Bonds has been made to Moody’s Investors Service, Inc. (“Moody’s”). The District has an underlying rating of “A2” from Moody’s on its previously issued unenhanced Water System Revenue Bonds. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

OTHER INFORMATION

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

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement. In its capacity as Financial Advisor, Specialized Public Finance Inc. has compiled and edited this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the District and, as

applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS . . . The accuracy of the mathematical computations of (i) the adequacy of the maturing principal of and interest earned on the Federal Securities together with other available funds held in the Escrow Fund, to provide for the payment of the Refunded Bonds, and (ii) the “yield” on the Federal Securities and on the Bonds, will be verified by Grant Thornton LLP, a firm of independent certified public accountants. These computations will be based upon information and assumptions supplied by Specialized Public Finance Inc. on behalf of the District. Grant Thornton LLP has restricted its procedures to examining the arithmetical accuracy of the computations and has not evaluated or audited the assumptions or information used in the computations.

UNDERWRITER . . . The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District, at a price equal to the initial offering prices to the public, as shown on the inside front cover page, less an underwriting discount of \$_____. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter of the Bonds is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

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

MISCELLANEOUS . . . All estimates, statements and assumptions in this Official Statement and the appendices hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

SCHEDULE I

SCHEDULE OF REFUNDED BONDS*

Water System
Revenue Bonds, Series 2006

Amount	Maturity	Coupon
\$ 320,000	7/10/2018	4.870%
335,000	7/10/2019	4.970%
\$ 655,000		

Redemption Date: 7/10/2017
Redemption Price: 100%

Water System
Revenue Bonds, Series 2007

Amount	Maturity	Coupon
\$ 230,000	7/10/2019	4.970%
240,000	7/10/2020	5.020%
250,000	7/10/2021	5.120%
\$ 720,000		

Redemption Date: 7/10/2017
Redemption Price: 100%

Water System
Revenue Bonds, Series 2008

Amount	Maturity	Coupon
\$ 150,000	7/10/2021	4.510%
160,000	7/10/2022	4.510%
165,000	7/10/2023	4.560%
175,000	7/10/2024	4.610%
180,000	7/10/2025	4.660%
190,000	7/10/2026	4.710%
200,000	7/10/2027	4.710%
210,000	7/10/2028	4.760%
220,000	7/10/2029	4.810%
230,000	7/10/2030	4.810%
240,000	7/10/2031	4.860%
250,000	7/10/2032	4.860%
265,000	7/10/2033	4.860%
\$ 2,635,000		

Redemption Date: 7/10/2018
Redemption Price: 100%

*Preliminary, subject to change.

APPENDIX A

Form of Bond Counsel's Opinion

Texas
New York
Washington, DC
Connecticut
Seattle
Dubai
London

Bracewell LLP
111 Congress Avenue
Suite 2300
Austin, Texas 78701-4061
512.472.7800 Office
800.404.3970 Fax

[Closing Date]

\$ _____
BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1
WATER SYSTEM REVENUE REFUNDING BONDS,
SERIES 2016

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT
NO. 1 WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016,
dated October 15, 2016.

The Bonds mature, bear interest, are subject to redemption and may be transferred and exchanged as set out in the Bonds and in the order adopted by the Board of Directors of the Issuer authorizing their issuance (the “Bond Order”) and the pricing certificate executed pursuant to the Bond Order (the “Pricing Certificate”, and, together with the Bond Order, the “Order”).

WE HAVE represented the Issuer as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; an escrow agreement (the “Escrow Agreement”) between the Issuer and The Bank of New York Mellon Trust Company, National Association (the “Escrow Agent”); a report (the “Report”) of Grant Thornton LLP, certified public accountants (the “Verification Agent”), verifying the sufficiency of the deposits made with the Escrow Agent for the defeasance and redemption of the debt obligations being refunded

(the “Refunded Bonds”) and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; customary certificates of officers, agents and representatives of the Issuer, and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the “Service”) as we have deemed relevant. We have also examined executed Bond No. T-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the Issuer;
- (B) The Bonds are payable from and secured by a lien on and pledge of the Pledged Revenues of the Issuer’s Water System, as defined and described in the Order; and
- (C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Escrow Agreement.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT under existing law:

- (1) Interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes; and
- (2) The Bonds are not “private activity bonds” within the meaning of the Code, and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the “adjusted current earnings” of a corporation (other than any S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on representations of the Issuer, the Issuer’s financial advisor and the underwriter of the Bonds with respect to matters solely within the knowledge of the Issuer, the Issuer’s financial advisor and the underwriter of the

Bonds, respectively, which we have not independently verified. We have further relied on the Report of the Verification Agent regarding the mathematical accuracy of certain computations. We have also assumed continuing compliance by the Issuer with the covenants in the Order pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations or the Report are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Order, interest on the Bonds could become includable in gross income from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

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 hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on 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 as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Order 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.

APPENDIX B

**Audited Financial Statement of the District
For the Year Ended April 30, 2016**



LOTT, VERNON & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

KILLEEN • COPPERAS COVE • TEMPLE

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows of Bell County Water Control and Improvement District #1 (The "District") as of and for the year ended April 30, 2016, 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 an opinion 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. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Bell County Water Control and Improvement District #1 as of April 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bell County Water Control and Improvement District #1 basic financial statements. The Texas Supplementary Information and Other Supplementary Information sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Texas Supplementary Information and Other Supplementary Information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Temple, Texas

August 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Bell County Water Control and Improvement District #1 (BCWCID #1), we offer readers of BCWCID #1's annual financial statements this narrative overview and analysis of the financial activities of BCWCID #1 for the fiscal year ended April 30, 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

Overview of the Financial Statements

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

Financial Statements

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

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

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

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

FINANCIAL ANALYSIS

The following analysis discusses the financial position and changes to the financial position for BCWCID #1 as a whole as of and for the year ended April 30, 2016. The prior year's financial position and results have been presented for comparative purposes.

Net Position

The following table reflects the condensed Statement of Net Position as of and for the years ended April 30, 2016 and April 30, 2015.

Condensed Statement of Net Position

	<u>2015</u>	<u>2016</u>
Current assets	\$ 14,326,866	\$ 17,084,201
Restricted assets	74,749,614	71,149,620
Fixed assets	109,686,615	111,030,105
Other assets	<u>272,899</u>	<u>255,785</u>
Total assets	<u>199,035,994</u>	<u>199,519,711</u>
Deferred outflow of resources	<u>2,231,698</u>	<u>2,947,510</u>
Current liabilities	8,771,617	8,290,791
Non-current liabilities	<u>123,844,350</u>	<u>119,242,773</u>
Total liabilities	<u>132,615,967</u>	<u>127,533,564</u>
Deferred inflow of resources	<u>-</u>	<u>830</u>
Net position		
Invested in capital assets, net of related debt	39,362,183	40,264,166
Restricted	15,938,097	17,741,928
Unrestricted	<u>13,351,445</u>	<u>16,926,733</u>
Total net position	<u>\$ 68,651,725</u>	<u>\$ 74,932,827</u>

The net position of BCWCID #1 totaled \$74,932,827 at April 30, 2016.

Net position consists of three components. The first portion of net position (\$40,264,166 or 53.7%) reflects BCWCID #1's investment in capital assets net of accumulated depreciation and any related debt used to acquire or construct those assets.

The second portion is restricted assets (\$17,741,928 or 23.7%) which reflects BCWCID #1's net position restricted for debt service and maintenance, operation, and replacement (MO&R) and construction.

The last portion consists of unrestricted net position (\$16,926,733 or 22.6%), which may be used to meet the ongoing District's obligation to its customers and creditors.

Changes in Net Position

BCWCID #1's total revenues for the fiscal year ended April 30, 2016 were \$24,265,401. The total cost of all programs and services was \$18,427,104. The following table presents a summary of the changes in net position for the fiscal years ended April 30, 2016 and April 30, 2015.

Changes in Net Position

	<u>2015</u>	<u>2016</u>
Operating revenues	\$ 22,414,092	\$ 23,036,545
Non-operating revenues	<u>1,711,690</u>	<u>1,228,856</u>
Total Revenues	<u>24,125,782</u>	<u>24,265,401</u>
Operating expenses	15,705,699	15,837,063
Non-operating expenses	<u>3,328,202</u>	<u>2,590,041</u>
Total Expenses	<u>19,033,901</u>	<u>18,427,104</u>
Increase (decrease) in net position	5,091,881	5,838,297
Net position at beginning of year	63,559,844	68,651,725
Cumulative Effect Change in Accounting Principle	<u>-</u>	<u>442,805</u>
Total Net Position--Beginning (As Adjusted)	63,559,844	69,094,530
Net position at end of year	<u>\$ 68,651,725</u>	<u>\$ 74,932,827</u>

Operating revenues increased \$622,453 primarily due to an increase in water and wastewater sales. Non-operating revenues decreased by \$482,834 primarily due to a decrease in civilian construction reimbursements and a decrease in unrealized gains on investments. Operating expenses increased by \$131,364 in the current year due to increases in depreciation and maintenance expenses. Non-operating expenses decreased by \$738,161 primarily due to a decrease in bond issue costs. There was also a decrease in bond interest expense due to recent refunding of bonds that resulted in lower interest rates.

FINANCIAL ANALYSIS OF THE BCWCID #1'S FUNDS

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

Budgetary Highlights

Amendments to the adopted budget may occur throughout the year in a legally permissible manner (see pages 14 and 45-47 for more information on budget policies). As seen on pages 46 and 47, there were Board approved amendments made to the adopted budget for operating costs in the fiscal year ending April 30, 2016.

The difference between total revenues and expenses in relation to budgetary estimates resulted in a favorable variance of \$2,590,393. During the year water revenue was above budgetary estimates by \$60,708 and sewer revenue was above budgetary estimates by \$1,148,210. Expenditures for both funds remained below the budgetary estimates by \$919,598 and \$461,877 respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (Net of Accumulated Depreciation)

The following table provides a breakdown of the capital asset balances net of accumulated depreciation at April 30, 2016. Major asset additions during the year included \$225,665 for a new water pump station at Fort Hood and \$136,670 for new actuators at the water treatment plant. Construction of a new water treatment plant at Stillhouse Hollow lake continues with \$6,791,267 spent to date, which includes capitalized interest. Installation of a new SCADA system at the water plant was also on going at year end. The District has spent \$1,055,940 to date on this project. On the wastewater side, the District completed the installation of a reuse pipeline to irrigate the City of Killeen’s golf course at a cost of \$1,522,299. The District is in the process of upgrading Sewer Plant 3 (\$2,313,683 has been spent to date, including capitalized interest) and replacing a thickener at Sewer Plant 1 (\$92,500 spent to date). The balances of the ongoing construction projects are included in Construction in Progress. Additional information on the District’s capital assets may be found in Note 8.

	Capital Assets		
	Water Fund	Sewer Fund	Total
Land	\$ 821,463	\$ 359,014	\$ 1,180,477
Building and Pipeline	91,459,676	72,840,642	164,300,318
Machinery & Equipment	5,053,703	4,377,566	9,431,269
Construction in Progress	7,893,248	2,437,006	10,330,254
Total	<u>\$ 105,228,090</u>	<u>\$ 80,014,228</u>	<u>\$ 185,242,318</u>

Long Term Debt

At April 30, 2016, BCWCID #1 has total debt outstanding of \$124,391,592 in Revenue Bonds, including net discounts and premiums of \$3,031,592. Further details can be found in Note 9 of the Financial Statements.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
STATEMENT OF NET POSITION
APRIL 30, 2016

<u>ASSETS</u>	PROPRIETARY FUND TYPES		
	ENTERPRISE FUNDS		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
CURRENT ASSETS			
Cash and Equivalents - Operating fund	\$ 7,739,910	\$ 7,569,352	\$ 15,309,262
Accounts receivable	979,522	707,966	1,687,488
Other Current Asset	-	-	-
Chemicals inventories (Note 7)	40,592	19,056	59,648
Prepays	13,128	14,675	27,803
Total Current Assets	8,773,152	8,311,049	17,084,201
RESTRICTED ASSETS			
Cash and Equivalents - Interest and sinking funds			
Civilians	3,884,475	2,145,310	6,029,785
Military	429,361	-	429,361
Total Cash and Equivalents - Interest and sinking funds	4,313,836	2,145,310	6,459,146
Cash and Equivalents - Maintenance, repair and replacement funds			
Civilians	501,645	50,104	551,749
Military	1,140,521	-	1,140,521
Total Cash and Equivalents - Maintenance, repair and replacement funds	1,642,166	50,104	1,692,270
Cash and Equivalents - Bond reserve funds			
Civilians	5,675,985	-	5,675,985
Military	-	464,080	464,080
Total Cash and Equivalents - Bond reserve funds	5,675,985	464,080	6,140,065
Cash and Equivalents - Construction fund	7,127,470	4,125,080	11,252,550
Investments - Construction fund	43,598,318	2,002,804	45,601,122
Interest Receivable	4,467	-	4,467
Total Restricted Assets	62,362,242	8,787,378	71,149,620
OTHER ASSETS			
Unamortized Bond Insurance	194,639	61,146	255,785
Total Other Assets	194,639	61,146	255,785
FIXED ASSETS - At Cost			
Land	821,463	359,014	1,180,477
Building and pipeline	91,459,676	72,840,642	164,300,318
Machinery and equipment	5,053,703	4,377,566	9,431,269
Construction in progress (Note 17)	7,893,248	2,437,006	10,330,254
	105,228,090	80,014,228	185,242,318
Accumulated depreciation (Note 8)	42,329,373	31,882,840	74,212,213
Total Fixed Assets	62,898,717	48,131,388	111,030,105
Total Noncurrent Assets	125,455,598	56,979,912	182,435,510
Total Assets	\$ 134,228,750	\$ 65,290,961	\$ 199,519,711
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions (Note 12)	\$ 248,208	\$ 247,175	\$ 495,383
Deferred Loss on Refunding of Debt - net	1,854,787	597,340	2,452,127
Total Deferred Outflows of Resources	\$ 2,102,995	\$ 844,515	\$ 2,947,510

The accompanying notes are an integral part of these financial statements

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
STATEMENT OF NET POSITION (CONTINUED)
APRIL 30, 2016

<u>LIABILITIES</u>	PROPRIETARY FUND TYPES		
	ENTERPRISE FUNDS		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
CURRENT LIABILITIES (Payable from Current Assets)			
Accounts payable	\$ 433,002	\$ 185,192	\$ 618,194
Retainage payable	42,735	-	42,735
Accrued vacation and sick leave	83,544	97,149	180,693
Total Current Liabilities Payable from Current Assets	559,281	282,341	841,622
CURRENT LIABILITIES (Payable from Restricted Assets)			
Accounts payable	518,635	115,889	634,524
Accrued bond interest payable	1,240,398	327,221	1,567,619
Retainage payable	-	32,026	32,026
Revenue bonds and notes payable - due within one year (Note 9)	3,005,000	2,210,000	5,215,000
Total Current Liabilities Payable from Restricted Assets	4,764,033	2,685,136	7,449,169
Total Current Liabilities	5,323,314	2,967,477	8,290,791
NONCURRENT LIABILITIES			
Net Pension Liability (Note 12)	33,217	32,964	66,181
Revenue bonds and notes payable, net of discount and premium (Note 9)	90,551,592	33,840,000	124,391,592
Less current maturities	(3,005,000)	(2,210,000)	(5,215,000)
Total Noncurrent Liabilities	87,579,809	31,662,964	119,242,773
Total Liabilities	\$ 92,903,123	\$ 34,630,441	\$ 127,533,564
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows Related to Pensions (Note 12)	\$ 416	\$ 414	\$ 830
Total Deferred Inflows of Resources	\$ 416	\$ 414	\$ 830
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	\$ 19,951,460	\$ 20,312,706	\$ 40,264,166
Restricted for debt service	8,166,991	2,282,169	10,449,160
Restricted for maintenance, operation & replacement	1,642,167	50,104	1,692,271
Restricted for Construction	5,044,505	555,992	5,600,497
Unrestricted	8,623,083	8,303,650	16,926,733
Total Net Position	\$ 43,428,206	\$ 31,504,621	\$ 74,932,827

The accompanying notes are an integral part of these financial statements

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED APRIL 30, 2016

	PROPRIETARY FUND TYPES		
	ENTERPRISE FUNDS		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
Operating Revenues			
Metered sales			
Fort Hood	\$ 949,372	\$ 891,349	\$ 1,840,721
Municipalities and non-profit enterprises	6,294,271	4,359,586	10,653,857
Others	62,065	2,450	64,515
Compost revenue	-	170,284	170,284
Contractual charges (Note 15)	5,580,522	2,770,074	8,350,596
System water revenue	863,625	-	863,625
Option water revenue	1,092,947	-	1,092,947
Total Operating Revenues	<u>14,842,802</u>	<u>8,193,743</u>	<u>23,036,545</u>
Operating Expenses			
Accounting	18,500	18,500	37,000
Chemicals	417,397	145,405	562,802
Depreciation (Note 8)	2,798,505	2,663,783	5,462,288
Electricity	1,756,642	806,772	2,563,414
Insurance expense	78,029	78,134	156,163
Legal	21,777	357	22,134
Maintenance	896,808	379,581	1,276,389
Supplies	100,665	124,321	224,986
Salaries and employee benefits	1,475,133	1,473,918	2,949,051
Payroll taxes	91,862	90,604	182,466
Transportation	22,692	75,066	97,758
Outside laboratory testing	10,602	19,226	29,828
Water plant lease	-	-	-
Land Lease	-	36,000	36,000
Purchase of option water (Note 15)	1,033,640	-	1,033,640
Purchase of system water (Note 15)	916,500	-	916,500
Engineering Fees	-	10,834	10,834
Other expenses	58,345	217,465	275,810
Total Operating Expenses	<u>9,697,097</u>	<u>6,139,966</u>	<u>15,837,063</u>
Operating Income	5,145,705	2,053,777	7,199,482
Non-Operating Revenues (Expenses)			
Interest income			
Unrestricted	8,282	7,541	15,823
Restricted	43,665	3,025	46,690
Unrealized Gain (Loss) on Investments	(61,938)	(2,054)	(63,992)
MO&R non-exchange revenues	474,686	445,674	920,360
Civilian Construction Reimbursement (Note 18)	292,471	-	292,471
Miscellaneous income	6,614	10,890	17,504
Gain (Loss) on sale of assets	(15,000)	9,224	(5,776)
Investment expense	(24,377)	(1,006)	(25,383)
Bond issue cost expense	(228,914)	-	(228,914)
Bond interest expense	(1,157,866)	(768,214)	(1,926,080)
Non-bond interest expense	-	(1,515)	(1,515)
Amortization	(325,092)	(77,281)	(402,373)
Total Non-Operating Revenues (Expenses)	<u>(987,469)</u>	<u>(373,716)</u>	<u>(1,361,185)</u>
Change in Net Position Before Operating Transfers	4,158,236	1,680,061	5,838,297
Transfers In (Out)	23,661	(23,661)	-
Changes in Net Position	<u>4,181,897</u>	<u>1,656,400</u>	<u>5,838,297</u>
Total Net Position--Beginning	39,022,833	29,628,892	68,651,725
Cumulative Effect Change in Accounting Principle (Note 21)	223,476	219,329	442,805
Total Net Position--Beginning (As Adjusted)	39,246,309	29,848,221	69,094,530
Total Net Position--Ending	<u>\$ 43,428,206</u>	<u>\$ 31,504,621</u>	<u>\$ 74,932,827</u>

The accompanying notes are an integral part of these financial statements

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2016

	PROPRIETARY FUND TYPES		
	ENTERPRISE FUNDS		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
Cash Flows From Operating Activities:			
Cash received from customers	\$ 14,916,346	\$ 8,135,719	\$ 23,052,065
Cash payments to suppliers for goods & services	(5,269,308)	(2,191,326)	(7,460,634)
Cash payments to employees for services	(1,314,081)	(1,305,999)	(2,620,080)
Net Cash Provided By Operating Activities	<u>8,332,957</u>	<u>4,638,394</u>	<u>12,971,351</u>
Cash Flows From Capital & Related Financing Activities:			
Principal paid on bond maturities	(3,525,000)	(2,105,000)	(5,630,000)
Principal paid on bond refunding	(8,320,000)	-	(8,320,000)
Interest paid on bonds	(2,067,914)	(788,719)	(2,856,633)
Interest paid - other	-	(1,515)	(1,515)
Bond issue costs	(228,914)	-	(228,914)
Proceeds from bond issuances	9,060,000	-	9,060,000
Payment for capital assets	(4,843,433)	(2,043,830)	(6,887,263)
Proceeds from sale of capital assets	-	75,709	75,709
MO&R non-exchange revenues	481,300	456,564	937,864
Civilian Construction Reimbursement	292,471	-	292,471
Transfers in (out)	23,661	(23,661)	-
Net Cash From Capital & Related Financing Activities	<u>(9,127,829)</u>	<u>(4,430,452)</u>	<u>(13,558,281)</u>
Cash Flows From Investing Activities:			
Purchase of Investments	147,771	3,761	151,532
Interest on investments	50,331	10,566	60,897
Investment Expenses	(24,377)	(1,006)	(25,383)
Net Cash Provided By (Used For) Investing Activities	<u>173,725</u>	<u>13,321</u>	<u>187,046</u>
Net Increase (Decrease) In Cash And Cash Equivalents	(621,147)	221,263	(399,884)
Cash And Cash Equivalents At Beginning Of Year	<u>27,120,514</u>	<u>14,132,663</u>	<u>41,253,177</u>
Cash And Cash Equivalents At End Of Year	<u>\$ 26,499,367</u>	<u>\$ 14,353,926</u>	<u>\$ 40,853,293</u>

Significant Non-Cash Transactions

None

The accompanying notes are an integral part of these financial statements

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2016
(CONTINUED)

	PROPRIETARY FUND TYPES		
	ENTERPRISE FUNDS		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
Reconciliation Of Operating Income To Net Cash Provided By			
Operating Activities:			
Operating income	\$ 5,145,705	\$ 2,053,777	\$ 7,199,482
Adjustments to reconcile operating income to net cash provided by			
operating activities:			
Depreciation	2,798,505	2,663,783	5,462,288
Non Cash Pension	8,901	5,532	14,433
Change in assets, liabilities and fund equity:			
(Increase) decrease in accounts receivable	73,544	(58,024)	15,520
(Increase) decrease in inventory	(1,139)	(6,662)	(7,801)
(Increase) decrease in prepaid insurance	968	(522)	446
(Increase) decrease in other current assets	220,702	-	220,702
Increase (decrease) in accounts payable	33,487	(71,273)	(37,786)
Increase (decrease) in retainage payable	35,285	32,026	67,311
Increase (decrease) in accrued vacation and sick leave	16,999	19,757	36,756
Total Adjustments	<u>3,187,252</u>	<u>2,584,617</u>	<u>5,771,869</u>
Net Cash Provided By Operating Activities	<u>\$ 8,332,957</u>	<u>\$ 4,638,394</u>	<u>\$ 12,971,351</u>

DISCLOSURE OF ACCOUNTING POLICY

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

The accompanying notes are an integral part of these financial statements

NOTES TO THE BASIC FINANCIAL STATEMENTS

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 1 - CREATION OF THE DISTRICT

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

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

NOTE 2 - FINANCIAL REPORTING ENTITY

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

FUND ACCOUNTING

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

PENSIONS

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

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

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

Investments are stated at fair value based on quoted market values.

BUDGET

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

INVENTORIES

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

FIXED ASSETS

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

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

BOND ISSUE COSTS

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

TRANSACTIONS BETWEEN FUNDS

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

VACATION AND SICK PAY

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

ESTIMATES

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

OPERATING AND NON-OPERATING ACTIVITIES

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

RESTRICTED AND UNRESTRICTED RESOURCES

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

NON-EXCHANGE TRANSACTIONS

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 4 - BOND INTEREST

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

NOTE 5 - PLEDGE OF REVENUES

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

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

The Water System Revenue Bonds, Series 2006, 2007, 2008 and 2014; the Water System Revenue Refunding Bonds series 2004, 2011, 2012, 2014, and 2015; and the Sewer System Revenue Refunding Bonds, Series 2014 are payable from a subordinated lien on and pledge of the net revenues of the District's water and sanitary sewer system after the payment of operation and maintenance expenses, respectively. Under contracts with municipalities and non-profit enterprises purchasing water and sewage treatment from the District, debt service on all District bonds is included in water and sewer fixed charges to District customers. These contracts, accordingly, make all debt of the District self-supporting. No taxes have ever been levied by the District and the District does not anticipate the necessity of levying taxes in the future.

NOTE 6 – AGREEMENT WITH THE U.S. ARMY

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

The balance of this account may not exceed \$5,000,000. Once the \$5,000,000 limit has been reached, billing of the RRR must be suspended until authorized expenditures are made and the balance is reduced below the limit. The replacement reserve funds may only be used for water and wastewater repair and replacement projects approved by the U.S. Army. At April 30, 2016, the balance in the replacement reserve account was \$1,140,521.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 7 - INVENTORIES

As of April 30, 2016 inventories consisted of:

	WATER SYSTEM	SEWER SYSTEM	TOTAL
Chemicals	\$ 40,592	\$ 19,056	\$ 59,648
	\$ 40,592	\$ 19,056	\$ 59,648

NOTE 8 - FIXED ASSETS & DEPRECIATION

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

	Balances at Beginning of Year	Additions/ Transfers	Deletions/ Transfers	Balances at End of Year	
Construction in Progress	\$ 5,589,858	\$ 6,262,696	\$ 1,522,300	\$ 10,330,254	
Land and Easements	1,180,477	-	-	1,180,477	
Total Nondepreciable Fixed Assets	6,770,335	6,262,696	1,522,300	11,510,731	
Water System	91,408,518	51,158	-	91,459,676	
Sanitary Sewer System	71,444,516	1,413,536	17,410	72,840,642	
Automobiles and Trucks	885,033	51,700	75,349	861,384	
Machinery and Equipment	8,605,883	630,473	666,471	8,569,885	
Total Depreciable Fixed Assets	172,343,950	2,146,867	759,230	173,731,587	
Total Fixed Assets	\$ 179,114,285	\$ 8,409,563	\$ 2,281,530	\$ 185,242,318	
Accumulated Depreciation:					
	Useful Lives				
Transportation equipment	5-10 yrs	\$ 486,821	\$ 79,805	\$ 21,528	\$ 545,098
Plant, Office, and other equipment	5-20 yrs	4,051,752	930,090	651,472	4,330,370
Building and pipelines	30-50 yrs	64,889,097	4,452,393	4,745	69,336,745
Total Accumulated Depreciation:		69,427,670	5,462,288	677,745	74,212,213
Fixed Assets, net of accumulated depreciation		\$ 109,686,615	\$ 2,947,275	\$ 1,603,785	\$ 111,030,105

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 9 - REVENUE BONDS PAYABLE

Revenue bonds outstanding at April 30, 2016, were as follows:

	Balance May 1, 2015	Additions	Retirements	Balance April 30, 2016	Current Maturities
WATER SYSTEM:					
Water Revenue Refunding Bonds, Series 2004	\$ 3,520,000	\$ -	\$ 1,740,000	\$ 1,780,000	\$ 1,040,000
Water Revenue Bonds, Series 2004	335,000	-	335,000	-	-
Water Revenue Bonds, Series 2006	6,010,000	-	4,760,000	1,250,000	290,000
Water Revenue Bonds, Series 2007	5,305,000	-	3,990,000	1,315,000	175,000
Water Revenue Bonds, Series 2007A	1,850,000	-	75,000	1,775,000	75,000
Water Revenue Bonds, Series 2008	3,410,000	-	115,000	3,295,000	120,000
Water Revenue Refunding Bonds, Series 2011	2,330,000	-	25,000	2,305,000	25,000
Water Revenue Refunding Bonds, Series 2012	7,255,000	-	75,000	7,180,000	420,000
Water Revenue Refunding Bonds, Series 2013A	2,355,000	-	125,000	2,230,000	135,000
Water Revenue Bonds Series 2014	50,145,000	-	-	50,145,000	-
Water Revenue Refunding Bonds, Series 2014	7,790,000	-	605,000	7,185,000	625,000
Water Revenue Refunding Bonds, Series 2015	-	9,060,000	-	9,060,000	100,000
	<u>90,305,000</u>	<u>9,060,000</u>	<u>11,845,000</u>	<u>87,520,000</u>	<u>3,005,000</u>
Water System Bonds Payable					
Net Premium/(Discount) On Bonds	3,224,350	-	192,758	3,031,592	-
Total Water System	<u>93,529,350</u>	<u>9,060,000</u>	<u>12,037,758</u>	<u>90,551,592</u>	<u>3,005,000</u>
SEWER SYSTEM:					
Sewer Revenue Refunding Bonds, Series 2013B	3,455,000	-	310,000	3,145,000	315,000
Sewer Revenue Refunding Bonds, Series 2014	32,490,000	-	1,795,000	30,695,000	1,895,000
	<u>35,945,000</u>	<u>-</u>	<u>2,105,000</u>	<u>33,840,000</u>	<u>2,210,000</u>
Total Sewer System					
	<u>35,945,000</u>	<u>-</u>	<u>2,105,000</u>	<u>33,840,000</u>	<u>2,210,000</u>
TOTAL	<u>\$ 129,474,350</u>	<u>\$ 9,060,000</u>	<u>\$ 14,142,758</u>	<u>\$ 124,391,592</u>	<u>\$ 5,215,000</u>

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

Year Ended April 30	Water System		Sewer System		Total
	Principal	Interest	Principal	Interest	
2017	3,005,000	3,664,671	2,210,000	949,390	9,829,061
2018	2,545,000	3,562,555	2,320,000	883,261	9,310,816
2019	2,865,000	3,469,780	2,445,000	813,728	9,593,508
2020	2,925,000	3,375,396	2,515,000	741,353	9,556,749
2021	3,030,000	3,274,114	2,585,000	666,942	9,556,056
Thereafter	73,150,000	33,618,866	21,765,000	2,410,900	130,944,766
TOTAL	<u>\$ 87,520,000</u>	<u>\$ 50,965,382</u>	<u>\$ 33,840,000</u>	<u>\$ 6,465,574</u>	<u>\$ 178,790,956</u>

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 9 - REVENUE BONDS PAYABLE - (Continued)

Defeased Debt Outstanding

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

The defeased bonds outstanding at April 30, 2016 are as follows:

Series-Water Fund	Outstanding Balances
Water Revenue Bonds, Series 2004	6,915,000
Water Revenue Bonds, Series 2004A	2,175,000
Water Revenue Refunding Bonds, Series 2004	6,070,000
Water Revenue Bonds, Series 2006	4,480,000
Water Revenue Refunding Bonds, Series 2006	2,275,000
Water Revenue Bonds, Series 2007	3,840,000
Total Defeased	\$ 25,755,000
Series-Sewer Fund	Outstanding Balances
Sewer Revenue Bonds, Series 2004	22,410,000
Sewer Revenue Bonds, Series 2004B	2,905,000
Total Defeased	\$ 25,315,000

Redemption of Bonds

On July 12, 2011, the District exercised its right to issue \$2,395,000 Water System Revenue Refunding Bonds, Series 2011 with a rate of 2.31% to refund and legally defease \$2,275,000 of Water System Revenue Refunding Bonds, Series 2006. The net proceeds of \$2,281,544 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. It is bond counsel's opinion that the advance refunding is a legal defeasance and the holders of the refunded obligations may obtain payment of principal and interest solely from funds of the irrevocable trust. As a result, the refunded bonds referred to above have been removed from the long-term obligations of the water enterprise fund. As of April 30, 2016, the outstanding maturity on the refunded debt was \$2,275,000.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 9 - REVENUE BONDS PAYABLE - (Continued)

The advanced refunding of the 2006 Refunding Bonds resulted in an \$88,647 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a deferred outflow of resources, is being amortized over the shorter life of the refunded debt or remaining life of the old debt, in accordance with GASB 65, *Items Previously Reported as Assets and Liabilities*. This transaction resulted in a reduction of cash outflows of \$413,139 through July 10, 2019 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$367,919.

On September 6, 2012, the District exercised its right to issue \$7,400,000 Water System Revenue Refunding Bonds, Series 2012 with rates of 2.0%-4.5% to refund and legally defease \$6,915,000 of Water System Revenue Bonds, Series 2004. The net proceeds of \$7,635,314 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. It is bond counsel's opinion that the advance refunding is a legal defeasance and the holders of the refunded obligations may obtain payment of principal and interest solely from funds of the irrevocable trust. As a result, the refunded bonds referred to above have been removed from the long-term obligations of the water enterprise fund. As of April 30, 2016, the outstanding maturity on the refunded debt was \$6,915,000. Prior to this fiscal year, \$1,985,000 of the Series 2004 Bonds were refunded. As of April 30, 2016, the outstanding maturity on this portion of the refunded debt was \$0.

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

On April 18, 2013, the District exercised its right to issue \$2,435,000 Special Project Revenue Refunding Bonds, Taxable Series 2013A with a rate of 3.26% to refund and legally defease \$2,175,000 of Special Project Bonds, Taxable Series 2004A. The net proceeds of \$2,366,970 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. It is bond counsel's opinion that the advance refunding is a legal defeasance and the holders of the refunded obligations may obtain payment of principal and interest solely from funds of the irrevocable trust. As a result, the refunded bonds referred to above have been removed from the long-term obligations of the water enterprise fund. As of April 30, 2016, the outstanding maturity on the refunded debt was \$2,175,000.

The advanced refunding of the 2004A Bonds resulted in a \$191,970 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a deferred outflow of resources, is being amortized over the shorter life of the refunded debt or remaining life of the old debt, in accordance with GASB 65.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 9 - REVENUE BONDS PAYABLE - (Continued)

This transaction resulted in a reduction of cash outflows of \$363,345 through July 10, 2029 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$271,947.

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

It is bond counsel's opinion that the advance refunding is a legal defeasance and the holders of the refunded obligations may obtain payment of principal and interest solely from funds of the irrevocable trust. As a result, the refunded bonds referred to above have been removed from the long-term obligations of the water enterprise fund. As of April 30, 2016, the outstanding maturity on the refunded debt was \$2,905,000.

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

On April 15, 2014, the District exercised its right to issue \$7,790,000 Water System Revenue Refunding Bonds, Series 2014 with a rate of 2.70% to refund and legally defease \$7,395,000 of Water System Revenue Refunding Bonds, Series 2004. The net proceeds of \$7,565,838 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. It is bond counsel's opinion that the refunding is a legal defeasance and the holders of the refunded obligations may obtain payment of principal and interest solely from funds of the irrevocable trust. As a result, the refunded bonds referred to above have been removed from the long-term obligations of the water enterprise fund. As of April 30, 2016, the outstanding amount on the refunding debt was \$6,070,000.

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 9 - REVENUE BONDS PAYABLE - (Continued)

On September 9, 2014, the District exercised its right to issue \$32,490,000 Sanitary Sewer System Revenue and Refunding Bonds, Series 2014 with a rate of 2.864% to refund and legally defease \$24,310,000 of Sanitary System Revenue Bonds, Series 2004. The net proceeds of \$24,733,965 (after payment of related issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. It is bond counsel's opinion that the refunding is a legal defeasance and the holders of the refunded obligations may obtain payment of principal and interest solely from funds of the irrevocable trust.

As a result, the refunded bonds referred to above have been removed from the long-term obligations of the sewer enterprise fund. As of April 30, 2016, the outstanding amount on the refunding debt was \$22,410,000.

The refunding of the 2004 Bonds resulted in a \$423,965 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a reduction to long-term debt, is being amortized over the life of the refunded debt in accordance with GASB 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*. This transaction resulted in a decrease of cash outflows of \$967,962.85 through July 10, 2025 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$91,856.

On June 18, 2015, the District exercised its right to issue \$9,060,000 Water System Revenue Refunding Bonds, Series 2015 at a rate (NIC basis) of 2.95% to refund and legally defease \$4,480,000 of Water System Revenue Bonds, Series 2006 and \$3,840,000 of Water System Revenue Bonds, Series 2007. The net proceeds of \$9,137,252 (after payment of related issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds until their date of redemption. It is bond counsel's opinion that the refunding is a legal defeasance and the holders of the refunded obligations may obtain payment of principal and interest solely from funds of the irrevocable trust.

As a result, the refunded bonds referred to above have been removed from the long-term obligations of the sewer enterprise fund. As of April 30, 2016, the outstanding amount on the refunding debt was \$4,480,000 and \$3,840,000 for Series 2006 and 2007 bonds respectively.

The refunding of the 2006 and 2007 Bonds resulted in a \$605,689 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a reduction to long-term debt, is being amortized over the life of the refunded debt in accordance with GASB 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*. This transaction resulted in a decrease of cash outflows of \$1,550,739 through July 10, 2032 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$1,076,011.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 10 – BOND COVENANT REQUIREMENTS AND COMPLIANCE STATUS

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

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

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

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

When the District issued the Series 2014 Sanitary Sewer Revenue and Refunding Bonds on September 9, 2014, the Bond Reserve Fund covenant was amended to allow the suspension of the accumulation of the Bond Reserve Fund as long as the City of Killeen maintains a debt service coverage ratio of 1.35 times. In the event Killeen's debt service coverage ratio falls below the required coverage amount, the District will then have to fund the reserve in the manner described above. According to the City of Killeen's 2015 Combined Annual Financial Report for the fiscal year ended September 30, 2015, Killeen's debt service coverage ratio was 1.76 times so a bond reserve fund is not required as of the District's fiscal year end.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

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

At April 30, 2016, the District’s status of the various reserve funds is as follows:

Principal and Interest Fund

	WATER SYSTEM	SEWER SYSTEM	SPECIAL PROJECTS
Required Reserve- Principal & Interest Payment due 7/10/16 (prorated for FYE)	\$ 3,336,228	\$ 1,756,623	\$ 407,357
Amount in Reserve	3,884,475	2,145,310	429,361
Fund Reserve Excess/(Deficiency)	\$ 548,247	\$ 388,687	\$ 22,004

The district is in compliance with the Principal and Interest Fund covenants at April 30, 2016.

Contingency Fund

	WATER SYSTEM	SEWER SYSTEM
Required Reserve	\$ 500,000	\$ 50,000
Amount in Reserve	\$ 501,645	\$ 50,104
Fund Reserve Excess/(Amount to be funded)	\$ 1,645	\$ 104

The District is in compliance with the Contingency Fund covenants at April 30, 2016.

Bond Reserve Fund

	WATER SYSTEM	SEWER SYSTEM	SPECIAL PROJECTS
Required Reserve-Average Annual Debt Service	\$ 5,638,320	Not applicable (1)	\$ 419,542
Amount in Reserve	5,675,985		464,080
Fund Reserve Excess/(Amount to be Funded)	\$ 37,665		\$ 44,538

(1) As noted above, the District is not required to fund a Sewer Bond Reserve as long as the City of Killeen meets debt service coverage requirements. Killeen met those requirements as of 4/30/16 so no reserve is required.

The District is in compliance with the Bond Reserve Fund covenants at April 30, 2016.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 11- RESTRICTED NET POSITION

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

Restricted for Debt Service

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

	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Reserve Balance, May 1, 2015	\$ 8,484,884	\$ 2,191,560	\$ 10,676,444
Additions	6,951,737	2,540,320	9,492,057
Reductions	<u>(7,269,630)</u>	<u>(2,449,711)</u>	<u>(9,719,341)</u>
Reserve Balance, April 30, 2016	<u>\$ 8,166,991</u>	<u>\$ 2,282,169</u>	<u>\$ 10,449,160</u>

Restricted for Maintenance, Operation and Replacement

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

	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Reserve Balance, May 1, 2015	\$ 1,353,854	\$ 50,023	\$ 1,403,877
Additions	288,313	81	288,394
Reductions	<u>-</u>	<u>-</u>	<u>-</u>
Reserve Balance, April 30, 2016	<u>\$ 1,642,167</u>	<u>\$ 50,104</u>	<u>\$ 1,692,271</u>

Restricted for Construction

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

	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Reserve Balance, May 1, 2015	\$ 3,785,260	\$ 72,516	\$ 3,857,776
Additions	4,603,529	2,170,955	6,774,484
Reductions	<u>(3,344,284)</u>	<u>(1,687,479)</u>	<u>(5,031,763)</u>
Reserve Balance, April 30, 2016	<u>\$ 5,044,505</u>	<u>\$ 555,992</u>	<u>\$ 5,600,497</u>

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 12 - EMPLOYEE BENEFIT PLANS

Plan Description

Bell County Water Control and Improvement District #1 participates in the Texas County & District Retirement System (TCDRS), which is a statewide, agent multiple-employer, public employee retirement system. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 677 active participating counties and districts throughout Texas. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034. The plan provisions are adopted by the governing body of the employer, within the options available in the Texas State statutes governing TCDRS ("TCDRS Act"), Members can retire at age 60 and above with 8 or more years of service but must leave their accumulated contributions in the plan to receive any employer finance benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

A brief description of benefit terms:

- 1) All full- and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.
- 2) The plan provides retirement, disability and survivor benefits.
- 3) TCDRS is a savings-based plan. For the district's plan, 7% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 150%) and is then converted to an annuity.
- 4) There are no automatic COLAs. Each year, the district may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation.
- 5) Benefit terms are established under the TCDRS Act. They may be amended as of Jan. 1 each year, but must remain in conformity with the Act.

Membership information is shown in the chart below:

Membership Information

Members	Dec. 31, 2014	Dec. 31, 2015
Number of inactive employees entitled to but not yet receiving benefits:	36	36
Number of active employees:	49	46
Average monthly salary ⁽¹⁾ :	\$4,152	\$4,148
Average age*:	46.19	46.84
Average length of service in years*:	6.84	7.37
Inactive Employees (or their Beneficiaries) Receiving Benefits		
Number of benefit recipients:	21	23
Average monthly benefit:	\$1,409	\$1,403

** Averages reported for all active and inactive employees. Average service includes all proportionate service.*

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

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

The most recent comprehensive annual financial report for TCDRS can be found at the following link, www.tcdrs.org.

Contributions

The employer has chosen a variable rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the regular 9.00% contribution rate of the employer is a fixed percent as adopted by the governing body of the employer. The District elected to increase the contribution rate to 10.00% effective January 1, 2016. Beginning January 1999 and due to adverse experience, the employee contribution rate was temporarily reduced to 1.00%, this rate continued in effect for the years 2000 through 2003. Subsequently, the employee contribution rate has increased to 6.00% for years 2004 through 2009 and to 7.00% for plan years 2010 through 2016. The regular contribution rate of the employer is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the employer at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the employer to contribute the same amount as the employees. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

If a plan has had adverse experience, the TCDRS Act has provisions, which allow the employer to contribute a fixed supplemental contribution rate determined by the System's actuary above the regular rate for 25 years or to reduce benefits earned in the future.

Net Pension Liability / Asset

The District's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Actuarial Cost Method: Entry Age Normal

Amortization Method:

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

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

Asset Valuation Method:

Smoothing Period – 5 years

Recognition Method – non-asymptotic

Corridor – None

Inflation: 3.00%

Salary Increases: Vary by length of service and by entry-age group, average of 1.4% per year

Investment Rate of Return: 8.10%

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

Retirement Age: Between ages 40 and 74 with various rates of service retirement by gender: low of 4.5% for ages 40-44 to high of 30% for ages 65 for males and females.

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

Mortality Rate:

Depositing members - The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.

Service retirees, beneficiaries and non-depositing members - The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

Disabled retirees - RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

Long Term Expected Rate of Return:

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2016 information for a 7-10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013.

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected Minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.45%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	14.00%	8.45%
Global Equities	MSCI World (net) Index	1.50%	5.75%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	5.45%
International Equities - Emerging	MSCI World Ex USA (net)	8.00%	6.45%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	1.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	5.10%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.09%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	5.00%	6.40%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	8.10%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	4.00%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.80%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	5.00%	6.90%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.25%

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

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

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

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

Discount Rate

The discount rate used to measure the total pension liability was 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses as required by GASB 68. The plan's fiduciary net position was projected to be sufficient to pay projected benefit payments in all future years. Therefore, the discount rate for purposes of calculating the total pension liability and net pension liability is equal to the long-term assumed rate of return on investments.

Changes in Net Pension Liability / (Asset)

Changes in the District's net pension liability / (asset) for the valuation year ended December 31, 2015 are as follows:

Changes in Net Pension Liability / (Asset)	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) – (b)
Balances as of December 31, 2014	\$6,282,232	\$6,659,060	\$(376,828)
Changes for the year:			
Service cost	241,342		241,342
Interest on total pension liability ⁽¹⁾	505,911		505,911
Effect of plan changes ⁽²⁾	69,294		69,294
Effect of economic/demographic gains or losses	(1,106)		(1,106)
Effect of assumptions changes or inputs	50,260		50,260
Refund of contributions	(55,965)	(55,965)	0
Benefit payments	(379,210)	(379,210)	0
Administrative expenses		(4,782)	4,782
Member contributions		163,296	(163,296)
Net investment income		59,056	(59,056)
Employer contributions		209,944	(209,944)
Other ⁽³⁾	0	(4,824)	4,824
Balances as of December 31, 2015	\$6,712,756	\$6,646,575	\$66,181

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

(2) Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

Sensitivity Analysis

The following presents the net pension liability of the county/district, calculated using the discount rate of 8.10%, as well as what the Bell County Water Control and Improvement District #1 net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	\$7,515,406	\$6,712,756	\$6,042,859
Fiduciary net position	6,646,575	6,646,575	6,646,575
Net pension liability / (asset)	<u>\$868,831</u>	<u>\$66,181</u>	<u>(\$603,716)</u>

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

For the year ended April 30, 2016, the District recognized pension expense of \$119,786 for the Water System and \$115,827 for the Sewer System. As of April 30, 2016, the deferred outflows and inflows are as follows:

Deferred Outflow of Resources:	Water System	Sewer System	Total
Differences between expected and actual experience	\$ -	\$ -	\$ -
Changes of assumptions	18,920	18,775	37,695
Net difference between projected and actual earnings	193,643	192,171	385,814
Contributions made subsequent to measurement date	<u>35,645</u>	<u>36,229</u>	<u>71,874</u>
Total Deferred Outflow of Resources:	\$ 248,208	\$ 247,175	\$ 495,383

Deferred Inflow of Resources:	Water System	Sewer System	Total
Differences between expected and actual experience	\$ 416	\$ 414	\$ 830
Changes of assumptions	-	-	-
Net difference between projected and actual earnings	-	-	-
Contributions made subsequent to measurement date	<u>-</u>	<u>-</u>	<u>-</u>
Total Deferred Inflow of Resources:	\$ 416	\$ 414	\$ 830

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

The \$71,874 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended April 30, 2017. The remaining amounts currently reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended April 30:

2017	\$	108,742
2018		108,742
2019		108,742
2020		96,453
2021		-
Thereafter		-

Payable to the Pension Plan

At April 30, 2016, the District had no payable due for the outstanding amount of contributions to the pension plan required for the year ended April 30, 2016.

Social Security Coverage

All employees of the district are covered by Social Security. The cost of such coverage for the year ended April 30, 2016 is included in payroll taxes expense and amounted to \$88,054 and \$86,385 for the Water System and Sewer System, respectively.

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

403(B) Plan

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 13 - DEPOSITS, SECURITIES, AND INVESTMENTS

At April 30, 2016, the District had the following deposits and investments:

	Credit Quality Ratings	Fair Value	Weighted Average Maturity
Water:			
<u>Unrestricted Cash and Investments:</u>			
Cash and cash equivalents:			
Deposits with a financial institution	Not Rated	\$ 7,739,910	n/a
Total Unrestricted Cash and cash equivalents:		7,739,910	
<u>Restricted Cash and Investments:</u>			
Cash and cash equivalents:			
Deposits with a financial institution	Not Rated	11,478,256	n/a
Deposits in Trust Cash Sweep Account	Not Rated	5,295,048	n/a
Texpool	AAAm	1,986,153	41 days
Total Restricted Cash and cash equivalents:		18,759,457	
Investments:			
Federal Home Loan Bank	Aaa	5,586,830	.49 years
Federal National Mortgage Association	Aaa	16,541,863	.75 years
Federal Home Loan Mortgage Corporation	Aaa	7,620,247	.98 years
United States Treasury	Aaa	13,849,378	.79 years
Total Restricted Investments:		43,598,318	
Total Cash and Investments - Water:		\$ 70,097,685	

Note: TexPool rating is based on Standard and Poor's. Ratings for investments listed are based on Moody's.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

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

Deposits and investments at April 30, 2016 continued:

	Credit Quality Ratings	Fair Value	Weighted Average Maturity
Sewer:			
<u>Unrestricted Cash and Investments:</u>			
Cash and cash equivalents:			
Deposits with a financial institution	Not Rated	\$ 7,569,352	n/a
Total Unrestricted Cash and cash equivalents:		7,569,352	
<u>Restricted Cash and Investments:</u>			
Cash and cash equivalents:			
Deposits with a financial institution	Not Rated	2,145,310	n/a
Deposits in Trust Cash Sweep Account	Not Rated	1,516,339	n/a
Texpool	AAAm	3,122,925	41 days
Total Restricted Cash and cash equivalents:		6,784,574	
Investments:			
Federal Home Loan Bank	Aaa	300,030	.15 years
Federal National Mortgage Association	Aaa	801,658	.38 years
Federal Home Loan Mortgage Corporation	Aaa	100,009	.04 years
United States Treasury	Aaa	801,107	.34 years
Total Restricted Investments:		2,002,804	
Total Cash and Investments - Sewer:		\$ 16,356,730	

Note: TexPool rating is based on Standard and Poor's. Ratings for investments listed are based on Moody's.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

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

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, investments were stated at fair value using the aggregate method in all funds, resulting in the following investment income:

<u>Investment Income / (Loss):</u>	Water	Sewer	Total
<u>Unrestricted:</u>			
Interest Income	\$ 8,282	\$ 7,541	\$ 15,823
Net changes in the fair value of investments	-	-	-
Total:	8,282	7,541	15,823
<u>Restricted:</u>			
Interest Income	369,890	18,350	388,240
(Less) Capitalized Interest Income	(326,225)	(15,325)	(341,550)
Net Interest Income:	43,665	3,025	46,690
Net changes in the fair value of investments	(61,938)	(2,054)	(63,992)
Total:	(18,273)	971	(17,302)
Net Investment Income / (Loss):	\$ (9,991)	\$ 8,512	\$ (1,479)

In accordance with GASB Statement No. 31, the net changes in the fair value of investments take into account all changes in fair value (including purchases and sales) that occurred during the year. These portfolio value changes are unrealized unless sold.

Deposits

The carrying amount of the District's demand deposits (including certificates of deposit and Regions Sweep account) was \$35,744,215 with a bank balance of \$36,777,010 at April 30, 2016. These deposits were with depository banks in interest bearing and non-interest bearing accounts. In addition, the District has \$5,109,078 invested in the Texas Local Government Investment Pool (TexPool). According to the District's policy, such deposits should be secured at all times by federal deposit insurance coverage and by pledged securities held by a third party correspondent bank in the name of the depository bank. Although the pledged securities are not in the name of Bell County Water Control and Improvement District #1, the deposits are deemed collateralized under Texas law. During the year and at year end, collateral securing the District's cash deposits at all of the depository institutions were sufficient to fully collateralize and insure the District's deposits.

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

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

In regards to pledges of the balance in the Regions sweep account, Regions calculates the total amount of deposits in excess of Federal Deposit Insurance Company (FDIC) coverage to provide collateral for the Trust cash sweep account at 105%.

Investments

The District is authorized by Texas Water Code 49.157 to invest in direct or indirect obligations of the United States, the state, or any county, city, school district, or other political subdivision of the state. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state, provided that they are secured in the manner provided by law for the security of funds of political subdivisions of the State of Texas. In addition, the District may invest in fully collateralized repurchase agreements, bankers' acceptances, commercial paper, mutual funds, investment pools and guaranteed investment contracts under the requirements of the Public Funds Investment Act.

The District had investments in Government Securities in the amount of \$45,601,122 at April 30, 2016.

Deposit and Investment Risk

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

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

Custodial Credit Risk – Investments: For investments, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's policy has limited the exposure to custodial risk of investments by ensuring that all investments are made with brokers/dealers that are in good standing with the District.

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

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

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

External Investment Pools:

TexPool

Texas Local Government Investment Pool (“TexPool”) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments.

The Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc., under an agreement with the Comptroller. The Comptroller exercises oversight responsibility over TexPool (the Texas Local Government Investment Pool). Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

All investments are stated at amortized cost, which in most cases approximates the market value of the securities. The objective of TexPool is to maintain a stable \$1.00 net asset value; however, the \$1.00 net asset value is not guaranteed or insured by the State of Texas. All TexPool securities will be marked to market daily. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, TexPool will sell portfolio holdings, as required, to maintain the ratio between 0.995 and 1.005. All gains or losses from the sale of securities will be distributed among TexPool Participants over a period of up to thirty days from the date of which the gain or loss is realized.

Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the Office of the Comptroller of Public Accounts for review.

Government Securities:

The District is invested in various Governmental Securities, including investments in Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and United States Treasury securities.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 14 - SEGMENTS OF ENTERPRISE ACTIVITIES

The District maintains two enterprise funds that account for water and sewer services provided by the District. Segment information as of and for the year ended April 30, 2016 is shown below:

	Water Fund	Sewer Fund	Total Enterprise Funds
Operating revenues	\$ 14,842,802	\$ 8,193,743	\$ 23,036,545
Depreciation expense	2,798,505	2,663,783	5,462,288
Operating income	5,145,705	2,053,777	7,199,482
Change in Net Position	4,181,897	1,656,400	5,838,297
Net property and equipment	62,898,717	48,131,388	111,030,105
Net working capital	3,449,838	5,343,572	8,793,410
Total assets	134,228,750	65,290,961	199,519,711
Total deferred outflow of resources	2,102,995	844,515	2,947,510
Total liabilities	92,903,123	34,630,441	127,533,564
Total deferred inflow of resources	416	414	830
Total net position	\$ 43,428,206	\$ 31,504,621	\$ 74,932,827

NOTE 15 - OBLIGATIONS AND LEASES

Water and Sewage Contracts

Metered Sales

The District has entered into contracts with the U.S. Government, for Fort Hood, and various municipalities and non-profit enterprises to furnish a maximum of 90,000,000 gallons of treated water per day. The District is also under contract to the U.S. Government, for Fort Hood, and to the City of Killeen, to receive, transport, treat, and dispose of waste collected by their respective sewer systems.

Contractual Charges

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

Reclaimed Water Supply Agreement

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

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 15 - OBLIGATIONS AND LEASES (Continued)

The initial term of the agreement is thirty years from the date of contract execution with the option for the City to extend the contract for two successive ten year periods. The District delivered 8,449,000 gallons of reclaimed water under the contract during the current fiscal year.

Water Supply Agreement

The District has entered into a contract with the Brazos River Authority dated June 12, 1992 which expires in 2042. The contract classifies two classes of water; "Election Use Water" and "Option Use Water". Election water is water actually used by customers of the District and option water is water that has not been used but is available to use. In 2015/2016 the election use rate was \$26.86 per acre foot used and the option (available but not used) water rate was \$13.43 per acre foot. During the twelve months ended April 30, 2016, the District received \$1,092,947 from its Municipal customers. The District in turn was billed for 27,456 acre feet of election use water at \$26.86 per acre foot and 22,053 acre feet of option water at \$13.43 per acre foot for a total of \$1,033,640.

Purchase of System Water

In May 2006, the District contracted to purchase an additional 13,000 acre-feet of system water from the Brazos River Authority. The 2015 rate was set at \$70.50 per acre-foot. Rates are adjusted annually as part of the Brazos River Authority's operation and maintenance cost. The additional water is allocated to the Cities of Killeen, Copperas Cove, Belton, WCID #3 and the District in the amounts of 10,000, 1,000, 1,000, 250 and 750 acre-feet, respectively. In July 2009, the District amended the original contract to where the diversion take points can be at Lake Belton or Lake Stillhouse Hollow. During the twelve months ended April 30, 2016, the District received \$863,625 from the cities and paid \$916,500. In January 2006, the District raised small customers' rates to pay for the District's portion of the contract, to the Brazos River Authority.

Water Plant Lease

The District has a lease with the U.S. Government, for Fort Hood, for use of a water plant at the Belton Reservoir. The original 63 year lease, that was to expire May 1, 2018, was extended an additional 32 years to December 31, 2050. This lease requires total annual payments of \$20,455. The following is a schedule of future minimum rental payments required under such operating lease, as of April 30, 2016:

Year Ending April 30,	2017	\$ 20,455
	2018	20,455
	2019	20,455
	2020	20,455
	2021	20,455
	2022-2026	102,275
	2027-2031	102,275
	2032-2036	102,275
	2037-2041	102,275
	2042-2046	102,275
	2047-2050	81,820
		<u>\$695,470</u>

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 15 - OBLIGATIONS AND LEASES (Continued)

Ground Lease Agreement

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

Year Ending April 30,	2017	\$ 18,000
	2018	18,000
	2019	18,000
	2020	18,000
	2021	18,000
	2022-2026	90,000
	2027-2031	90,000
	2032-2036	90,000
	2037-2039	54,000
		<u>\$414,000</u>

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 16 - INSURANCE

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

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

<u>Type</u>	<u>Expiration Date</u>	<u>Water System Amount</u>	<u>Sewer System Amount</u>	<u>Risk Covered</u>
General liability (comprehensive)	6-30-2016	\$1,000,000 each occurrence \$3,000,000 aggregate	\$1,000,000 each occurrence \$3,000,000 aggregate	Property damage, equipment bodily injury
Commercial Excess/Umbrella	6-30-2016	\$3,000,000 each \$3,000,000 aggregate	\$3,000,000 each \$3,000,000 aggregate	Property damage bodily injury
Vehicle liability	6-30-2016	\$ 1,000,000	\$ 1,000,000	Property damage bodily injury - each occurrence
Wrongful Acts/ Professional Liability	6-30-2016	\$ 1,000,000 \$ 3,000,000	\$ 1,000,000 \$ 3,000,000	General liability-each claim total aggregate
Property Building, Plant & Contents	6-30-2016	\$ 121,564,000	\$ 63,240,900	Property damage
Commercial Crime	6-30-2016	\$ 100,000	\$ 100,000	Employee dishonesty, forgery & alteration
Worker's Compensation	4-30-2016	\$1,000,000 Each Accident \$1,000,000 Each Employee \$1,000,000 Policy Limit	\$1,000,000 Each Accident \$1,000,000 Each Employee \$1,000,000 Policy Limit	Districts employees
Terrorism	6-30-2016	\$ 1,000,000	\$ 1,000,000	Property damage, personal and bodily injury

NOTE 17 - CONSTRUCTION IN PROGRESS

Water System

During the year, the District did not complete any ongoing projects. Construction continued for a new water treatment plant at Stillhouse Hollow Lake and a SCADA system. At April 30, 2016, the District had spent \$6,791,267 and \$1,055,940 respectively, on these projects. The District also started projects to install a new ammonia tank and replace chlorinators. At April 30, 2016, the District had spent \$15,145 and \$30,896 respectively, on these projects.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 17 - CONSTRUCTION IN PROGRESS (continued)

Sewer System

During the year, the District completed construction of the City of Killen Reuse Project at a cost of \$1,522,299. The District continued to work on a plant upgrade for Sewer Plant 3. At April 30, 2016, the District had spent \$2,313,683 on this project. The District also started a project to build a new maintenance shop and replace the thickener at Sewer Plant 1. At April 30, 2016, the District had spent \$30,823 and \$92,500 respectively, on these projects.

As of April 30, 2016, Water and Sewer System construction in progress consisted of:

	Water Construction In Progress	Sewer Construction In Progress
Easements	\$ -	\$ -
Engineering fees	1,769,385	1,246,732
Construction	1,047,981	826,880
Capitalized interest and expenses	4,732,895	363,394
Other costs	342,987	-
Total	<u>\$ 7,893,248</u>	<u>\$ 2,437,006</u>

For the twelve months ended April 30, 2016, the District capitalized \$453,510 of interest income and \$5,186,405 of interest expense related to construction of the Stillhouse Hollow Water Treatment Plant. The District also capitalized \$17,291 of interest income and \$380,685 of interest expense related to the plant upgrades at Sewer Plant 3.

NOTE 18 – CIVILIAN CONSTRUCTION REIMBURSEMENT

American Water, the contractor responsible for the operations and maintenance of the water distribution and wastewater collection systems at Fort Hood, was responsible for building a new water take point for Fort Hood, known as Fort Hood Station 7. American Water contracted with the District to build a portion of this project, including piping and meter installation, at an estimated cost of \$292,471. Payment for this construction costs is listed as Civilian Construction Reimbursement for the Water System in the Statement of Revenues, Expenses and Changes in Net Position.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

There were no commitments or contingencies as of April 30, 2016.

NOTE 20 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 1, 2016, the date the financial statements were available to be issued.

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1
NOTES TO THE BASIC FINANCIAL STATEMENTS
APRIL 30, 2016

NOTE 21 - PRIOR YEAR RESTATEMENT

In the year of implementation of GASB 68, as amended by GASB 71, a restatement to beginning net position is required for the recording of the beginning net pension liability and for the recording of deferred outflows of resources for contributions made after the measurement date of the beginning net pension liability and beginning of the reporting entity's fiscal year.

Beginning net position as of May 1, 2015, has been restated as follows for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.

Beginning Net Position	\$ 68,651,725
Implementation of GASB 68:	
Net Pension Asset (Measurement Date as of December 31, 2015)	376,828
Deferred Outflows - District Contributions made during FY 2015	<u>65,977</u>
Beginning Net Position, as Restated	\$ 69,094,530

APPENDIX C

Summary of Certain Provisions of the Order

SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER

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

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

“Interest Payment Date” means each January 10 and July 10 until the Bonds have been paid at maturity or prior redemption.

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

“MSRB” means the Municipal Securities Rulemaking Board.

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

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

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

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

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

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

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

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

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

“Special Project Bonds” means any bonds or notes issued from time to time in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of facilities (whether or not such facilities are connected to or integrated into facilities that comprise the System) necessary under a service contract, lease, lease-purchase agreement, installment sale agreement or any other type of contract or contracts with persons,

corporations, municipal corporations, political subdivisions or other entities (including specifically, but without limitation, any such contract or agreement with the United States of America relating to facilities for the benefit of the Fort Hood Military Reservation), such bonds or notes to be payable from and secured by the proceeds of such contract or contracts, and any bonds or notes issued to refund such bonds or notes.

“State” means the State of Texas.

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

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

SECURITY FOR THE BONDS

Pledge

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

Maintenance of Income

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

Payment of Bonds Similarly Secured and Performance of Obligations

The District covenants to pay promptly the principal of and interest on the Bonds Similarly Secured as the same become due and payable at maturity or prior redemption in

accordance with the terms of the Bonds Similarly Secured and the bond orders authorizing the issuance thereof, and to keep and perform faithfully all of the covenants, undertakings and agreements contained in the bond orders authorizing the issuance of the Bonds Similarly Secured, or in any bond executed, authenticated and delivered thereunder.

FUNDS AND APPLICATION OF REVENUES

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

System Fund

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

Principal and Interest Fund.

The District has heretofore created and established, and hereby reaffirms and reestablishes, at the office of the official Depository of the District, a fund to be designated as the “Bell County Water Control and Improvement District No. 1-Principal and Interest Fund” (the “Principal and Interest Fund”). The Principal and Interest Fund shall be kept separate and apart from all other funds and shall be used solely for the payment of the principal of and interest on Bonds Similarly Secured. Beginning in the calendar month immediately following the issuance of the Bonds, there shall be transferred each year during which Bonds Similarly Secured are outstanding from the System Fund into the Principal and Interest Fund not less than 100% (less any amounts on hand in the Principal and Interest Fund available for the purpose) of the amount required to meet the interest and principal payments on the Bonds Similarly Secured falling due on or before the following July 10. Transfers required under this Section to be made into the Principal and Interest Fund in each year shall be made in equal monthly installments not later than the fifteenth day of each month. If in any month amounts in the System Fund are insufficient to make the required monthly payment into the Principal and Interest Fund, as required by this Section, the deficiency shall be made up in the month or months immediately following. Not later than two (2) days prior to any Interest Payment Date or principal and Interest Payment Date, the District shall cause its Depository to transfer the amount of money required for making the principal and interest payments coming due on such dates, to the Paying Agent/Registrar and the Paying Agent/Registrar shall make such payments in the manner established in the bond orders authorizing the issuance of Bonds Similarly Secured.

Bond Reserve Fund

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

Contingency Fund

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

purposes and that any such deposit will not cause the balance in the Contingency Fund to exceed the Contingency Fund Limit. Payments required under this Section to be made into the Contingency Fund each year shall be made in substantially equal monthly installments and shall be deposited on or before the fifteenth day of each month. If in any month amounts in the System Fund are insufficient to make the payments into the Contingency Fund required under this Section, such deficiency shall be made up in the month or months immediately following.

Investments and Earnings

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

Security for Funds

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

Excess Net Revenues

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

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

Additional Parity Bonds Authorized

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

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

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

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

Right to Issue Junior Lien Water Revenue Bonds Reserved

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

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

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

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

Revenue Bonds, and (ii) to make all deposits and payments required to be made from the Pledged Revenues during such year in connection with all such bonds.

Special Project Bonds

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

Refunding and Defeasance

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

DEFAULT PROVISIONS

Remedies in Event of Default

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

Bond Order is Contract

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

MAINTENANCE AND OPERATION; INSURANCE

Duty to Maintain and Insure

While any of the Bonds Similarly Secured are outstanding, the District covenants and agrees to maintain the System in good condition and operate the same in an efficient manner and

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

Insurance Proceeds

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

Excess Insurance Proceeds

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

SPECIAL COVENANTS; MISCELLANEOUS PROVISIONS

Covenant Not to Sell or Encumber

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

Charges for Use of Improvements

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

Maintenance of Contracts

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

Bonds are Special Obligations

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

Accounting

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

APPENDIX D

Summary of Certain Provisions of the Water Contracts

SUMMARY OF CERTAIN PROVISIONS OF THE WATER CONTRACTS

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

QUANTITY. (A) Quantity Availability To Purchaser: Subject to (i) the terms and conditions set forth in the Water Contracts, (ii) the acquisition of necessary permits (if any) from the Texas Commission on Environmental Quality and (iii) the availability to the District of an adequate supply of raw water, the District agrees to sell and deliver to each Purchaser, and each Purchaser agrees to purchase and take at such delivery, all water required by such Purchaser during the period of the Water Contracts for its own use and for distribution to all customers served by such Purchaser’s water distribution system up to, but not to exceed, a total of 42.0 million gallons for the City of Killeen; 16.0 million gallons for the City of Copperas Cove; 10.0 million gallons for the City of Belton; 15.5 million gallons for the City of Harker Heights; 3.0 million gallons for the Bell County Water Control and Improvement District No. 3; and 4.5 million gallons for the 439 Water Supply Corporation during any 24 hour period at a maximum instantaneous rate of delivery not to exceed 29,167 gallons per minute for the City of Killeen; 11,111 gallons per minute for the City of Copperas Cove; 6,944 gallons per minute for the City of Belton; 10,764 gallons per minute for the City of Harker Heights; 2,083 gallons per minute for the Bell County Water Control and Improvement District No. 3; and 3,125 gallons per minute for the 439 Water Supply Corporation.

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

(B) Quantity Available to the District:

(1) *The 1992 Water Supply Agreement*. To provide for the water needs of its Civilian Resale Customers, the District has previously entered into the 1992 Water Supply Agreement (the “1992 Agreement”) with the Brazos River Authority (the “Authority”). The 1992 Agreement expires on December 31, 2041, but may be extended at the written request of the District for so long as the Authority continues to have the right to use storage in Lake Belton for water supply purposes. The 1992 Agreement

provides, among other things, that the Authority, at the option of the District, will make water from Lake Belton available to the District in each calendar year, beginning in the year 2001 and continuing through the term of the 1992 Agreement, in an amount not greater than 20,000 acre-feet per year (such 20,000 acre-feet of water per calendar year being hereinafter referred to as “Primary Water”). The 1992 Agreement provides further that the Authority will make additional water from Lake Belton available to the District in each calendar year during the term of the 1992 Agreement in an amount not to exceed 29,509 acre-feet per year (such 29,509 acre-feet of water per calendar year being hereinafter referred to as “Secondary Water”).

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

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

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

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

City of Killeen	21,098
City of Copperas Cove	2,941
City of Belton	1,900
City of Harker Heights	2,620
Bell County Water Control and Improvement District No. 3	470
439 Water Supply Corporation	480

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

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

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

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

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

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

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

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

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

BILLING AND PAYMENT. The District will read all of the meters monthly and will promptly render monthly bills to each Purchaser based on such readings. Such bills will be due and payable within twenty-five (25) days from the date the same are deposited in the United States mail properly stamped and addressed to each Purchaser. If a Purchaser fails to pay any bill due to the District on or before its due date, the District may give notice of such delinquency to such Purchaser in writing and if all bills due and unpaid are not paid within fifteen (15) days after deposit of such notice properly stamped and addressed to such Purchaser in the United States mail, then the District will be authorized to discontinue further water service until all bills due, including interest thereon at the maximum legal rate, have been paid in full.

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

PRICE OF WATER. The District and the Purchasers recognize that because the price the District must pay for water may vary from time to time, and further because the operation, maintenance and repair expenses of the District and debt service requirements¹ on its bonds (including refunding bonds) issued to provide facilities with which to serve the Purchasers and other customers, will vary from time to time, that it is neither practical nor possible to fix a schedule of specific rates in the Water Contracts which will control the price paid by the Purchasers to the District for water delivered throughout the term of the Water Contracts. The District and the Purchasers further recognize, however, that the District's rates for water should at all times be the lowest possible rates which are consistent with good business management on the part of the District and with the commitment which District must make to the holders of its bonds or other obligations in order to provide funds with which to construct the facilities necessary to carry on its water supply operations. The District further recognizes its obligation as a public utility to serve all customers of the same class without discrimination either as to rates or types of service.

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

The costs of constructing the District's two existing transmission lines were not equally shared by all Civilian Resale Customers. Therefore, for certain cost sharing purposes, such customers are divided into two (2) groups: (1) the customers of the District's Killeen Transmission System,² including the City of Killeen, the City of Copperas Cove, the City of Harker Heights, Bell County Water Control and Improvement District No. 3, and 439 Water Supply Corporation (hereinafter called "Killeen System Customers" when referred to as a group); and (2) the City of Belton as the only customer of the District's Belton Transmission System.³ The Civilian Resale Customers' rates which are more particularly described below, consist of (1) certain fixed charges, (2) annual operation, maintenance and repair charges and the purchase price of water from the Authority for civilian usage (herein called "operating charges"), and (3) certain surcharges. Such rates will be reviewed upon the written request of any customer at intervals of not less than one year.

¹ When used in the Water Contracts, the term "debt service requirements" means (i) the principal, premium, if any, and interest when due on the District's bonds, refunding bonds and other obligations; (ii) any payments required by the District's bond orders or other authorizing documents to be made into debt service reserve funds and contingency funds; and (iii) any trustee or paying agent fees and expenses relating to the District's bonds and other obligations.

² The term "Killeen Transmission System" when used in the Water Contracts means the separate pumping system, water pipelines and appurtenances of the District for the transmission and delivery of water from the District's water supply and treatment facilities to its Killeen System Customers.

³ The term "Belton Transmission System" when used in the Water Contracts means the separate pumping system, water pipelines and appurtenances of the District for the transmission and delivery of water from the District's water supply and treatment facilities to the City of Belton.

(A) Fixed Charges.

(1) *Common Fixed Charges (Original Treatment Plant).*⁴ Common Fixed Charges (Original Treatment Plant), will be shared by all of the District's Civilian Resale Customers. The amount of such charges to be paid by a particular Civilian Resale Customer will be determined by the application to the total of such charges less any credit to such amount which may result from payments received from any additional customers the District may contract with pursuant to the further provisions of the Water Contracts (hereinafter called "Additional Customers") of a fraction, the numerator of which is the Original Maximum Daily Rate of Delivery⁵ for such customer and the denominator of which is 16.814 MOD. Such charges consist only of rentals or other payments which the District is obligated to pay the United States of America for use of governmental facilities.

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

(3) *Special Fixed Charges (Killeen Transmission System).* Special Fixed Charges (Killeen Transmission System) shall be shared by the Killeen System Customers only. Such charges (less any credit to such amount which may result from payments received from Additional Customers) consist of the entire debt service requirements relating to the portion of any bonds or obligations of the District hereafter issued (including refunding bonds) to construct modifications, additions, improvements or extensions to the Killeen Transmission System. Apportionment of such charges with respect to debt service requirements on bonds or obligations hereafter issued will be made among the Killeen System Customers by the following methods:

(a) The amount of debt service on that portion of bond moneys used to construct modifications to the Killeen Transmission System will be shared by the District's Killeen System Customers only. The amount to be paid by a particular

⁴ The term "Original Treatment Plant" when used in the Water Contracts means the District's water treatment plant (and appurtenances) as it existed on January 1, 1975, exclusive of the Killeen Transmission System and the Belton Transmission System.

⁵ For the purposes of the Water Contracts, "Original Maximum Daily Rate of Delivery" means the maximum daily rate of delivery applicable to each civilian resale customer with respect to the Original Treatment Plant, as set forth below:

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

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

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

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

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

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

District's Lake Stillhouse Water Plant, as it exists on the issuance date of the related bonds, and the denominator of which shall be the aggregate of all civilian resale customers' maximum daily rate of delivery from the District's Lake Stillhouse Water Plant, as it exists on the issuance date of the related bonds.

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

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

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

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

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

bonds were issued and shall make any necessary adjustments to the allocation of debt service to such purposes; and

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

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

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

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

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

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

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

Operating Charges will be expressed in a specified sum for each 1,000 gallons of water and will be apportioned among all of the District's water customers, including the United States of America, on the basis of the quantity of water r delivered to each customer in each calendar month or billing period. Such charges for the first or partial calendar year after any enlargements

or expansions of the District's water system are completed and placed in operation, in whole or in part, will be estimated by the District, but thereafter the provision in the District's rate schedule for operating charges will be based upon such actual costs as experienced during the previous calendar year, provided, that, if there is a substantial increase or decrease in operating costs during any calendar year, the operating charges for the then current year will be adjusted accordingly.

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

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

(C) Surcharges:

The Purchasers recognize that the District is entering into contracts with each of its Civilian Resale Customers and that under such contracts the entire design capacity of its water supply, treatment and transmission facilities available for use by its Civilian Resale Customers will be allocated among such customers. Consequently, the Purchasers recognize that their contract capacity cannot be exceeded without encroaching upon the design capacity allocated to other Civilian Resale Customers and the Purchasers agree not to exceed such capacity. The District, in its sole discretion, may charge a reasonable surcharge, in an amount not to exceed \$20,000 per occurrence, to any Civilian Resale Customer determined by the District to be in violation of its agreement not to exceed its allocated daily capacity. The amount of any surcharge actually received by the District will be applied, in such manner as the District deems appropriate under the circumstances, as a credit to the payments which the other Civilian Resale Customers are required to make under their respective contracts. The provisions of this paragraph will not apply to excess quantities of water delivered to Civilian Resale Customers during emergencies as provided under "Measuring and Control Equipment," above.

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

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

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

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

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

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

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

District's bonds or other obligations. The District is, however, granted the specific right to assign, mortgage, transfer, trust, pledge or otherwise hypothecate or encumber the Purchasers' obligations to make payments under the Water Contracts.

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

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

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

ADDITIONAL CUSTOMERS. The District will have the right to contract with any customers or persons to treat, transmit or supply water through its water supply, treatment and transmission facilities and to enlarge or extend such facilities to provide such services. Any such contracts will not, however, impair the right of each Purchaser to receive water at the maximum rate set forth in the Water Contracts, except with the written consent of each Purchaser. Further, any such contract will require such a customer or person to pay the debt service requirements on any bonds or other obligations of the District which are issued to enlarge or extend its water supply, treatment and transmission facilities to provide such service and an equitable share of the Fixed Charges and Operating Charges described in the Water Contracts.

SPECIFIC PERFORMANCE: NO WAIVER. It is not intended hereby to specify (and the Water Contracts will not be considered as specifying) an exclusive remedy for any default by the District, but all such remedies (other than termination) existing at law or in equity maybe

availed of by the Purchasers and will be cumulative. Recognizing, however, that the District's undertaking to provide and maintain services as provided herein is an obligation, failure in the performance of which cannot be adequately compensated in money damages alone, the District agrees, in the event of any default on its part, that the Purchasers will have available to them the equitable remedy of specific performance. No waiver or waivers of any breach or default (or any breaches or defaults) by either party hereto of any term, covenant, condition, or liability under the Water Contracts, or of performance by the other party of any duty or obligation under the Water Contracts, will be deemed or construed to be a waiver of subsequent breaches or defaults of any kind.

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

APPENDIX E

Information Relating to the Major Civilian Water Customers

City of Killeen

TEN LARGEST WATER CUSTOMERS (FISCAL YEAR 2015)

Customer	Water Usage (gallons)	% of Total Water Usage	Amount Billed
City of Killeen-Golf	130,289,400	3.00%	\$ 80,614
Metroplex Hospital	22,495,800	0.52%	62,651
Premier Cemetary Service Inc.	20,743,000	0.48%	65,317
Independence Place at Ft. Hood	20,041,900	0.46%	63,184
KISD-Ellison High School	13,166,000	0.30%	48,556
Stone Hill Apartments	12,534,300	0.29%	38,836
City of Killeen-Parks	11,994,600	0.28%	39,572
City of Killeen-Parks	11,644,900	0.27%	37,705
TGFT Enterprise Inc.	11,612,900	0.27%	37,466
Bridgemor Apartments	9,642,500	0.22%	31,451
	264,165,300	6.08%	

Note: % of Total Consumption based on 4,345,766,120 gallons annual consumption (FYE 2015).

UTILITY SYSTEM CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ending September 30,				
	2015	2014	2013	2012	2011
<u>Revenues⁽¹⁾:</u>					
Charges for Services	\$ 37,007,157	\$ 35,243,516	\$ 36,532,116	\$ 37,571,221	\$ 35,659,361
Interest Income	480,556	148,397	132,662	103,721	104,123
Total Revenues	\$ 37,487,713	\$ 35,391,913	\$ 36,664,778	\$ 37,674,942	\$ 35,763,484
<u>Expenditures⁽²⁾:</u>					
Water Purchases	\$ 7,637,005	\$ 7,467,995	\$ 6,897,853	\$ 6,692,095	\$ 6,925,331
Sewer Service Contract	6,594,789	6,297,470	5,553,338	5,452,759	5,230,533
Operating Cost	10,618,307	9,564,316	9,298,188	9,229,112	9,204,958
Total Expenses	\$ 24,850,101	\$ 23,329,781	\$ 21,749,379	\$ 21,373,966	\$ 21,360,822
Net Revenue Available for Debt Service ⁽³⁾	\$ 12,637,612	\$ 12,062,132	\$ 14,915,399	\$ 16,300,976	\$ 14,402,662
<u>Customer Count:</u>					
Water	46,765	46,073	44,510	45,068	41,765
Sewer	45,006	44,256	42,636	43,141	39,945

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

(2) Expenditures do not include depreciation.

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

City of Harker Heights

TOP TEN WATER CUSTOMERS (FISCAL YEAR 2015)

Customer	Consumption
Pleasant View Mobile Home Park	84,911,000
Big Oaks Mobile Home Park	84,310,000
Seton Medical Center	78,160,000
Ancient Oaks Mobile Home Park	76,646,000
Indian Oaks Nursing Center	56,592,000
Lookout Ridge Apartments	52,068,000
Country Squire Mobile Home Park	51,986,000
Wells Laundry, Inc.	48,407,000
Today's Car Wash II, LLC	46,635,000
Harker Heights High School	43,737,000
	623,452,000

COMBINED WATERWORKS AND SEWER SYSTEMS CONDENSED STATEMENT OF OPERATIONS

	Fiscal Years Ended September 30,				
	2015	2014	2013	2012	2011
Revenues:					
Charges for Services	\$ 8,744,036	\$ 8,573,314	\$ 8,961,818	\$ 9,064,451	\$ 9,292,434
Other	31,473	14,694	25,960	33,892	88,720
Total	\$ 8,775,509	\$ 8,588,008	\$ 8,987,778	\$ 9,098,343	\$ 9,381,154
Expenses:					
Water & Sewer System Operations ⁽¹⁾	\$ 5,200,850	\$ 4,911,039	\$ 4,924,997	\$ 4,718,566	\$ 4,875,364
Total	\$ 5,200,850	\$ 4,911,039	\$ 4,924,997	\$ 4,718,566	\$ 4,875,364
Net Available for Debt Service ⁽²⁾	\$ 3,574,659	\$ 3,676,969	\$ 4,062,781	\$ 4,379,777	\$ 4,505,790
Water Customers	10,384	10,006	9,666	9,740	9,533
Sewer Customers	8,959	8,842	8,586	8,580	8,314

(1) Excludes depreciation expense. Includes contract payments.

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

City of Copperas Cove

TOP TEN WATER CUSTOMERS (FISCAL YEAR 2015)

Customer	Gallons Billed
Central Texas College	48,041,000
Topsey Water District	19,103,000
Cedar Grove Mobile Home Park	7,572,000
Hill Country Rehab	4,804,600
Willow Creek Apartments	3,860,000
Stoney Brook Living Center	3,802,500
Central Texas College	3,802,000
Wells Laundry	3,501,800
Cedar Grove Mobile Home Park	3,419,300
Emmons Commercial Ltd.	3,392,700
	101,298,900

COMBINED WATERWORKS AND SEWER SYSTEM CONDENSED STATEMENT OF OPERATIONS

	Fiscal Years Ended September 30,				
	2015	2014	2013	2012	2011
<u>Revenues:</u>					
Waterworks and Sewer System	\$ 11,033,764	\$ 10,344,806	\$ 10,635,793	\$ 9,704,503	\$ 9,672,233
Miscellaneous	61,667	76,385	70,638	52,289	273,684
Total	\$ 11,095,431	\$ 10,421,191	\$ 10,706,431	\$ 9,756,792	\$ 9,945,917
<u>Expenses:</u>					
Waterworks and Sewer System ⁽¹⁾	\$ 6,343,966	\$ 5,977,076	\$ 6,069,310	\$ 5,556,574	\$ 6,229,349
Net Available for Debt Service ⁽²⁾	\$ 4,751,465	\$ 4,444,115	\$ 4,637,121	\$ 4,200,218	\$ 3,716,568
Water Customers	13,474	13,261	13,216	12,387	13,099
Sewer Customers	10,941	10,740	10,715	11,149	11,400

(1) Excludes depreciation expense.

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

City of Belton

TEN LARGEST WATER CUSTOMERS (FISCAL YEAR 2015)

Customer	Amount Billed	% of Total Revenue
University of Mary Hardin Baylor	\$ 455,447	12.05%
Bell County	128,212	3.39%
Belton ISD	112,054	2.96%
Turtle Creek Village	86,770	2.30%
Belton Housing Authority	48,708	1.29%
Legacy Landing	46,403	1.23%
Belle Oaks Apartments	43,035	1.14%
Riversprings at Barge Ranch	35,550	0.94%
Ratliff Ready Mix	34,659	0.92%
Montrose II Apartments	29,826	0.79%
	1,020,664	27.00%

WATER, SEWER & DRAINAGE SYSTEM CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ending September 30,				
	2015	2014	2013	2012	2011
<u>Revenues:</u>					
Gross Revenues	\$ 6,540,924	\$ 5,923,899	\$ 6,281,109	\$ 6,188,643	\$ 6,390,784
Total Revenues	\$ 6,540,924	\$ 5,923,899	\$ 6,281,109	\$ 6,188,643	\$ 6,390,784
<u>Expenditures⁽¹⁾:</u>					
Operating Costs	\$ 4,129,183	\$ 3,960,108	\$ 3,868,827	\$ 3,747,788	\$ 3,557,957
Total Expenses	\$ 4,129,183	\$ 3,960,108	\$ 3,868,827	\$ 3,747,788	\$ 3,557,957
Net Revenue Available for Debt Service ⁽²⁾	\$ 2,411,741	\$ 1,963,791	\$ 2,412,282	\$ 2,440,855	\$ 2,832,827
<u>Customer Count:</u>					
Water	6,387	6,105	6,065	5,902	5,785
Sewer	4,750	4,582	4,358	4,351	4,245

(1) Excludes depreciation expense.

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