

OFFICIAL STATEMENT DATED OCTOBER 11, 2018

IN THE OPINION OF BOND COUNSEL TO THE DISTRICT, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS IS EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. BOND COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATING TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE "TAX MATTERS" HEREIN.

The District has designated the Bonds as "qualified tax-exempt obligations" for purposes of the calculation of interest expense by financial institutions which may own the Bonds. See "QUALIFIED TAX-EXEMPT OBLIGATIONS."

**NEW ISSUE
BOOK-ENTRY ONLY
CUSIP No. 41424H**

**RATINGS: (S&P–BAM) "AA" (stable outlook)
(See "BOND INSURANCE" herein)
Underlying Rating–None**

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23

(A political subdivision of the State of Texas located within Harris County, Texas)

\$4,220,000

REVENUE BONDS, SERIES 2018

Dated: November 1, 2018

Due: September 1, as shown on inside cover

The \$4,220,000 Revenue Bonds, Series 2018 (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 23 (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any other political subdivision or agency. See "THE BONDS--Source of and Security for Payment."

Interest on the Bonds will accrue from November 1, 2018 and will be payable March 1, 2019 and each September 1 and March 1 thereafter, until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are issuable only in fully registered form in principal denominations of \$5,000 or integral multiples thereof and will initially be registered solely in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), acting as securities depository for the Bonds, until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, the Bonds shall be payable to Cede & Co., which will in turn, remit such amount to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS--Book-Entry Only System."

Principal of and redemption price for the Bonds are payable by UMB Bank, n.a., Austin, Texas or any successor paying agent/registrant (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check mailed on or before the interest payment date to registered owners shown on the records of the Paying Agent/Registrar on the fifteenth calendar day of the month preceding each interest payment date or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the registered owner at the risk and expense of the registered owner. See "THE BONDS--Description."

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

SEE INSIDE COVER PAGE FOR MATURITY SCHEDULE



The Bonds, when issued, will constitute special obligations of the District, payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the District's water and sewer system (the "System"). The Net Revenues consist of the gross revenues of the System, less maintenance and operation expenses of the System. Depreciation and payments relating to funds for the Bonds and Additional Bonds (hereinafter defined) shall never be considered maintenance and operation expenses. Additionally, the District has established a reserve fund (the "Reserve Fund") pledged to the payment of the Bonds and any Additional Bonds and is required to maintain an amount in the Reserve Fund equal to the lesser of maximum or average annual debt service requirements on the Bonds similarly secured (see "APPENDIX B--Selected Provisions of the Bond Resolution"). **The Bonds do not constitute a general obligation of the District, and the holders of the Bonds shall not have the right to demand payment thereof from any funds raised or to be raised by taxation. None of the State of Texas, Harris County, Texas, the City of Houston, Texas, nor any political subdivision or municipality, other than the District shall be obligated to pay the principal of or interest on the Bonds.** See "THE BONDS--Source of and Security for Payment."

The Bonds will be delivered when, as and if issued by the District and accepted by the winning bidder for the Bonds (the "Underwriter"), subject among other things to the approval of the Bonds by the Attorney General of the State of Texas and by the approval of certain legal matters by Michael A. Cole, P. C., Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected on or about November 15, 2018, in Austin, Texas.

MATURITY SCHEDULE

Bonds Dated: November 1, 2018

Due: September 1, as shown below

\$775,000 Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield(a)</u>	<u>CUSIP (b)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield(a)</u>	<u>CUSIP (b)</u>
2019	\$65,000	6.000%	2.250%	41424H AA2	2024	90,000	5.000%	3.050%	41424H AF1
2020	80,000	6.000%	2.450%	41424H AB0	2025	95,000	5.000%	3.150%	41424H AG9
2021	80,000	6.000%	2.600%	41424H AC8	2026(c)	95,000	3.000%	3.300%	41424H AH7
2022	85,000	6.000%	2.750%	41424H AD6	2027(c)	100,000	3.125%	3.400%	41424H AJ3
2023	85,000	5.000%	2.900%	41424H AE4					

\$3,445,000 Term Bonds

\$215,000 Term Bonds, Due September 1, 2029 (c)(d), 5.000% Interest Rate, 3.250% Initial Yield (a)
CUSIP (b) 41424H AL8

\$235,000 Term Bonds, Due September 1, 2031 (c)(d), 5.000% Interest Rate, 3.350% Initial Yield (a)
CUSIP (b) 41424H AN4

\$245,000 Term Bonds, Due September 1, 2033 (c)(d), 4.000% Interest Rate, 4.030% Initial Yield (a)
CUSIP (b) 41424H AQ7

\$275,000 Term Bonds, Due September 1, 2035 (c)(d), 4.000% Interest Rate, 4.100% Initial Yield (a)
CUSIP (b) 41424H AS3

\$295,000 Term Bonds, Due September 1, 2037 (c)(d), 4.000% Interest Rate, 4.150% Initial Yield (a)
CUSIP (b) 41424H AU8

\$325,000 Term Bonds, Due September 1, 2039 (c)(d), 4.000% Interest Rate, 4.190% Initial Yield (a)
CUSIP (b) 41424H AW4

\$350,000 Term Bonds, Due September 1, 2041 (c)(d), 4.125% Interest Rate, 4.260% Initial Yield (a)
CUSIP (b) 41424H AY0

\$585,000 Term Bonds, Due September 1, 2044 (c)(d), 4.125% Interest Rate, 4.290% Initial Yield (a)
CUSIP (b) 41424H BB9

\$920,000 Term Bonds, Due September 1, 2048 (c)(d), 4.250% Interest Rate, 4.340% Initial Yield (a)
CUSIP (b) 41424H BF0

(a) Initial yield represents the initial reoffering yield to the public which has been established by the Underwriter for public offerings and which subsequently may be changed. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from November 1, 2018 is to be added to the price.

(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(c) Bonds maturing on or after September 1, 2026, are subject to redemption prior to maturity at the option of the District, as a whole or from time to time, in part, on September 1, 2025, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS—Optional Redemption."

(d) Term Bonds are also subject to mandatory redemption in part by lot or other customary method at a price of par plus accrued interest to the redemption date. See "THE BONDS—Mandatory Redemption."

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

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT 4

SALE AND DISTRIBUTION OF THE BONDS 4

Prices and Marketability 4

Securities Laws 5

Underwriter 5

Municipal Bond Rating 5

SUMMARY 5

The District 5

The Bonds 6

THE BONDS 8

Description 8

Use of Proceeds 8

Registration and Transfer 9

Mandatory Redemption 10

Optional Redemption 11

Book-Entry Only System 11

Authority for Issuance 13

Outstanding Bonds 13

Transfer and Exchange 13

Mutilated, Destroyed, Lost or Stolen Bonds 13

Defeasance 13

Annexation 13

Consolidation 13

Legal Investment and Eligibility to Secure Public Funds in Texas 14

SECURITY FOR THE BONDS 14

Net Revenues 14

Reserve Fund 14

Rate Covenant 15

Issuance of Additional Bonds 16

Bondholders' Remedies 16

Debt Service Requirements 17

BOND INSURANCE 18

Bond Insurance Policy 18

Build America Mutual Assurance Company 18

THE DISTRICT 20

Authority, Purpose, and Functions 20

Description and Location 20

Management of the District 20

Development of the District 21

Photographs Taken in District (August 2018) 22

Boundary and Location Map 25

REVENUE BOND COVERAGE 26

THE SYSTEM 26

Regulation 26

Description of the System 26

Rate Order 27

Historical Operations of the General Fund 29

TAX PROCEDURES 30

Authority To Levy Taxes 30

Exempt Property 30

Appraisal of Taxable Property 31

Assessment and Levy 31

Collection 32

Reappraisal of Property after Disaster 32

Tax Payment Installments after Disaster 32

TAX AND OTHER DATA 33

Tax Collection History 33

Principal Taxpayers	34
Analysis of Tax Base	35
Estimated Overlapping Taxes	36
Estimated Overlapping Debt	37
RISK FACTORS	37
General	37
Hurricane Harvey	37
Recent Extreme Weather Events; Hurricane Harvey	38
Specific Flood Type Risks	38
Economic Factors and Interest Rates	38
Credit Markets and Liquidity in the Financial Markets	39
Factors Affecting Taxable Values and Tax Payments	39
Overlapping Tax Rates	39
Tax Collection Limitations	39
Registered Owners' Remedies	39
Bankruptcy Limitation to Registered Owners' Rights	40
Proposed Tax Legislation	40
Environmental Regulation and Air Quality	40
Future Debt	42
Continuing Compliance with Certain Covenants	43
Marketability	43
Approval of the Bonds	43
Future and Proposed Legislation	43
LEGAL MATTERS	43
Legal Opinions	43
Legal Review	43
No-Litigation Certificate	44
No Material Adverse Change	44
TAX MATTERS	44
QUALIFIED TAX-EXEMPT OBLIGATIONS	46
CONTINUING DISCLOSURE OF INFORMATION	46
Annual Reports	46
Event Notices	46
Availability of Information from MSRB	47
Limitations and Amendments	47
Compliance with Prior Undertakings	47
FORWARD-LOOKING STATEMENTS	48
PREPARATION OF OFFICIAL STATEMENT	48
General	48
Consultants	48
Updating the Official Statement	48
Financial Advisor	49
Certification of Official Statement	49
APPENDIX A--Financial Statements of the District	
APPENDIX B--Selected Provisions of the Bond Resolution	
APPENDIX C--Specimen Municipal Bond Insurance Policy	

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the District or the Underwriter 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 or the Underwriter.

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.

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Michael A. Cole, P.C., 5120 Bayard Lane, Houston, Texas 77006 upon payment of duplication costs.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition of the District or other matters described herein since the date hereof. The District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Underwriter and thereafter only as specified in "PREPARATION OF THE OFFICIAL STATEMENT-- Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

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

SALE AND DISTRIBUTION OF THE BONDS

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter prior to delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter or control regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the sole responsibility of the Underwriter.

SUBJECT TO CERTAIN RESTRICTIONS, THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of special district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional governmental entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission 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 other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

Underwriter

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") bearing the interest rates shown on the inside cover page hereof, at a price of 97.00% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 4.369619% as calculated pursuant to Chapter 1204, Texas Government Code, as amended (the "IBA" method).

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the inside cover page hereof. The initial offering price may be changed from time to time by the Underwriter.

Municipal Bond Rating

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign its municipal rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company at the time of delivery of the Bonds (see "BOND INSURANCE" and "APPENDIX C—Specimen Municipal Bond Insurance Policy"). An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of such rating.

The District can make no assurance that the S&P rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

The District has made no application for an underlying municipal bond rating, nor is it expected that the District would have been successful in receiving an investment grade rating had such application been made.

SUMMARY

The following information is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is made for all purposes. This summary should not be detached and should be used in conjunction with more complete information contained herein.

- The District -

Description	Harris County Municipal Utility District No. 23, Harris County, Texas (the "District") was created by order of the Texas Water Rights Commission, predecessor of the Texas Commission on Environmental Quality ("TCEQ"), on September 7, 1972. The District, which contains approximately 432.8625 acres, lies entirely within Harris County and within the exclusive extraterritorial jurisdiction of the City of Houston. It is located approximately 13 miles northwest of Houston's Central Business District. Fairbanks North Houston Road bounds the District on the west and is located within two miles of the intersection of US Highway 290 and Fairbanks North Houston Road. See "THE DISTRICT--Description and Location."
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Development Land within the District has been developed as the residential subdivisions of Woodland Trails West (Sections 1/9); Courtyard Homes III (Sections 1/2); and Woodland Gate. In addition, two homes on large lots as well as approximately 43.68 acres of commercial development has been developed. There remains approximately 11.84 acres of commercial land remaining undeveloped. As of May, 2018, there were 1,232 single family connections and 89 equivalent single family connections of commercial development within the District. See "THE DISTRICT--Development of the District" and "--Current Development Within the District." The entire District is being served with water, sewer and drainage facilities.

Hurricane Harvey, which struck the Houston area on August 26, 2017, caused historic levels of rainfall and significant damage in the Houston area, although no flooding was reported within the District. Hurricane Harvey could have an adverse impact on the Houston region's economy, including business activity and development in the region.

See "TAX PROCEDURES--Reappraisal of Property after Disaster" and "--Tax Payment Installments after Disaster;" "THE SYSTEM--100 Year Flood Plain;" and "RISK FACTORS--Hurricane Harvey," "--Recent Extreme Weather Events; Hurricane Harvey," and "--Specific Flood Type Risks."

Authority The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT--Authority, Purpose and Functions."

- The Bonds -

Description The \$4,220,000 Revenue Bonds, Series 2018 (the "Bonds"), bear interest from November 1, 2018, at the rates per annum set forth on the inside cover page hereof, which interest is payable March 1, 2019 and each September 1 and March 1 thereafter until the earlier of maturity or redemption. The Bonds mature serially on September 1 in the years 2019 through 2027, both inclusive, in the principal amounts set forth on the inside cover page hereof (herein the "Serial Bonds") and on September 1 in the years 2029, 2031, 2033, 2035, 2037, 2039, 2041, 2044 and 2048 (herein the "Term Bonds"). The Term Bonds are subject to mandatory redemption as described herein under "THE BONDS--Mandatory Redemption." The Bonds maturing on and after September 1, 2026, are subject to optional redemption at the option of the District on any date on or after September 1, 2025, at a price of par plus accrued interest to the date of redemption. See "THE BONDS -- Description" and " -- Optional Redemption."

The Bonds will be issued in fully registered form only, in principal denominations of \$5,000 or any integral multiple thereof, transferrable only upon presentation to the Paying Agent/Registrar for the Bonds. See "THE BONDS--Description" and "THE BONDS--Optional Redemption."

Source of Payment The Bonds, when issued, will constitute special obligations of the District, payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the District's water and sewer system (the "System"). The Net Revenues consist of the gross revenues of the System, less maintenance and operation expenses of the System. Depreciation and payments relating to the Bonds and Additional Bonds shall never be considered maintenance and operation expenses. Additionally, the District has established a reserve fund (the "Reserve Fund") pledged to the payment of the Bonds and Additional Bonds and is required to maintain an amount in the Reserve Fund equal to the lesser of maximum or average annual debt service requirements on the Bonds and Additional Bonds (see "APPENDIX B--Selected Provisions of the Bond Resolution"). **The Bonds do not constitute a general obligation of the District, and the holders of the Bonds shall not have the right to demand payment thereof from any funds raised or to be raised by taxation. None of the State of Texas; Harris County, Texas; City of Houston, Texas nor any political subdivision or municipality, other than the District shall be obligated to pay the principal of or interest on the Bonds.** See "THE BONDS--Source of and Security for Payment."

Use of Proceeds	Proceeds of the Bonds will be used to rehabilitate its share of the regional wastewater treatment plant; to provide for one year's capitalized interest; to provide for a Reserve Fund; and to pay the costs of issuance of the Bonds. See "THE BONDS — Use of Proceeds."
Payment Record	The District has never defaulted in the timely payment of the principal of or interest on its bonded indebtedness.
Qualified Tax-Exempt Obligations	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 bonds (including the Bonds) issued by it during the calendar year 2018 is not reasonably expected to exceed \$10,000,000. See "QUALIFIED TAX-EXEMPT OBLIGATIONS."
Book-Entry Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company, New York, New York, pursuant to the Book-Entry Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal and interest on the Bonds will be payable by UMB Bank, n.a., Austin, Texas (the "Paying Agent/Registrar") to Cede & Co. and Cede & Co. will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS--Book-Entry Only System").
Municipal Bond Rating and Municipal Bond Insurance	S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign a municipal rating of "AA" (stable outlook) as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company. The District has made no application for an underlying municipal bond rating, nor is it expected that the District would have been successful in receiving an investment grade rating had such application been made. See "SALE AND DISTRIBUTION OF THE BONDS—Municipal Bond Rating," "BOND INSURANCE" and "APPENDIX C—Specimen Municipal Bond Insurance Policy."
Bond Counsel	Michael A. Cole, P. C., Houston, Texas. See "LEGAL MATTERS."
Disclosure Counsel	Orrick, Herrington & Sutcliffe LLP, Houston, Texas
Financial Advisor	Blitch Associates, Inc., Houston, Texas.

RISK FACTORS

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THE ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED "RISK FACTORS."

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
\$4,220,000
REVENUE BONDS, SERIES 2018

This Official Statement of Harris County Municipal Utility District No. 23 (the "District") is provided to furnish certain information with respect to the sale by the District of its \$4,220,000 Revenue Bonds, Series 2018 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas and a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended. See "THE BONDS."

This Official Statement includes descriptions of the Bonds, the Bond Resolution and certain other information about the District. Document descriptions contained herein are only summaries and are qualified in their entirety by reference to each such document, copies of which may be obtained by contacting the District, c/o Michael A. Cole, P. C., located at 5120 Bayard Lane, Houston, Texas 77006-6512.

THE BONDS

Description

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution. A copy of the Bond Resolution may be obtained upon request to the District and payment of the applicable copying charges.

The Bonds will mature on September 1 of the years and in principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable on March 1, 2019, and semiannually thereafter on each September 1 and March 1 thereafter until the earlier of maturity or redemption. Principal of and interest on the Bonds will be payable to Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"), acting as securities depository for the Bonds, by the paying agent/registrar, initially UMB Bank, n.a., Austin, Texas (the "Paying Agent/Registrar"). Cede & Co. will make distribution of the principal and interest so paid to the beneficial owners of the Bonds. For so long as DTC shall continue to serve as securities depository for the Bonds, all transfers of beneficial ownership interest will be made by the book-entry only method described herein and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of the Bonds is to receive, hold or deliver any Bond certificate.

If at any time, DTC ceases to hold the Bonds as securities depository, then principal of the Bonds will be payable to the registered owner at maturity or redemption upon presentation and surrender at the principal payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar at the close of business on the fifteenth calendar day of the month next preceding the interest payment date (the "Record Date").

The Bonds of each maturity will be issued in fully-registered form only in the principal amount or maturity amount of \$5,000 or any integral multiple thereof.

If the specified date for any payment of principal (or redemption price) or interest on the Bonds shall be a Saturday, Sunday or legal holiday or equivalent (other than a moratorium) for banking institutions generally in the City of Houston, Texas, such payment may be made on the next succeeding date which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payments.

Use of Proceeds

Proceeds of the Bonds will be used to rehabilitate its share of the regional wastewater treatment plant; to provide for one year's capitalized interest; to provide for a Reserve Fund; and to pay the costs of issuance of the Bonds. See "THE SYSTEM." The costs outlined below have been provided by Sherrington-Humble, LLC, the District's consulting engineer (the "Engineer"), and reflect those costs approved by the Texas Commission on Environmental Quality ("TCEQ"). *Amounts indicated below may not add due to rounding.*

<i>Construction Costs</i>	<u>Amount</u>	<u>Less: 18.312%(a)</u>	<u>The Bonds</u>
Rehabilitation of Regional Wastewater Treatment Plant	\$3,253,865	(\$595,848)	\$2,658,017
Contingencies (10.00%)	325,387	(59,585)	265,802
Engineering (15.00%)	<u>536,888</u>	<u>(98,315)</u>	<u>438,573</u>
Total Construction Costs	\$4,116,139	(\$753,747)	\$3,362,392
<i>Non Construction Costs</i>			
Legal Fees (2.36%)			\$99,400
Financial Advisor Fees (1.61%)			67,750
Capitalized Interest (One year)			183,844
Reserve Fund (One year's average annual debt service)			249,484
Contingency			46,016
Bond Discount (3.00%)			126,600
Bond Issuance Expenses			29,744
Bond Application Report			40,000
Attorney General Fee (0.10%)			4,220
TCEQ Bond Issuance Fee (0.25%)			<u>10,550</u>
Total Non Construction Costs			<u>\$857,608</u>
<i>The Bonds</i>			<u><u>\$4,220,000</u></u>

(a) Represents the portion of the rehabilitation to be paid by Harris County Municipal Utility District No. 220. See "THE SYSTEM–Sewage Disposal Contract."

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities; however, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

Registration and Transfer

The Bonds will be transferable only on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal aggregate principal of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the principal office of the Paying Agent/Registrar in Austin, Texas. No service charge will be made for any registration, transfer or exchange of Bonds, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith. Neither the District nor the Paying Agent/Registrar is required to issue, transfer or exchange any Bond during the 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 selected for redemption, in whole or in part, beginning 15 calendar days prior to the date of the first mailing of any notice of redemption and ending at the close of business on the date of such mailing, or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

Mandatory Redemption

The Bonds maturing September 1 in the years 2029, 2031, 2033, 2035, 2037, 2039, 2041, 2044 and 2048 (the “Term Bonds”) are subject to mandatory redemption in part prior to maturity in the amounts and on the dates set out below, at a price equal to the principal amount to be redeemed plus accrued interest to the redemption date:

<u>Redemption Date</u>	<u>Principal Amount</u>
	<i>\$215,000 Term Bonds Due September 1, 2029</i>
September 1, 2028	\$105,000
September 1, 2029 (maturity)	110,000
	<i>\$235,000 Term Bonds Due September 1, 2031</i>
September 1, 2030	\$115,000
September 1, 2031 (maturity)	120,000
	<i>\$245,000 Term Bonds Due September 1, 2033</i>
September 1, 2032	\$120,000
September 1, 2033 (maturity)	125,000
	<i>\$275,000 Term Bonds Due September 1, 2035</i>
September 1, 2034	\$135,000
September 1, 2035 (maturity)	140,000
	<i>\$295,000 Term Bonds Due September 1, 2037</i>
September 1, 2036	\$145,000
September 1, 2037 (maturity)	150,000
	<i>\$325,000 Term Bonds Due September 1, 2039</i>
September 1, 2038	\$160,000
September 1, 2039 (maturity)	165,000
	<i>\$350,000 Term Bonds Due September 1, 2041</i>
September 1, 2040	\$170,000
September 1, 2041 (maturity)	180,000
	<i>\$585,000 Term Bonds Due September 1, 2044</i>
September 1, 2042	\$185,000
September 1, 2043	195,000
September 1, 2044 (maturity)	205,000
	<i>\$920,000 Term Bonds Due September 1, 2048</i>
September 1, 2045	\$215,000
September 1, 2046	225,000
September 1, 2047	235,000
September 1, 2048 (maturity)	245,000

The particular Term Bonds to be mandatorily redeemed shall be selected by lot or other customary random selection method. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of the mailing of notice of such mandatory

redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Optional Redemption

The District reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof on September 1, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds of a maturity are to be redeemed, the Paying Agent/Registrar shall select by lot those Bonds to be redeemed.

At least thirty (30) days prior to the date fixed for any such redemption a written notice of such redemption shall be given to the registered owner of each Bond or a portion thereof being called for redemption by depositing such notice in the United States mail, first class, postage prepaid, addressed to each such registered owner at his address shown on the registration books of the Paying Agent/Registrar; provided, however, that the failure to receive such notice shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond. By the date fixed for any such redemption due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or the portions thereof which are to be so redeemed, plus accrued interest to the date fixed for redemption. If a portion of any Bond shall be redeemed, a substitute Bond having the same maturity date, bearing interest at the same rate, in any integral multiple of \$5,000, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender of the Bonds being redeemed, at the expense of the District, all as provided for in the Bond Resolution.

Book-Entry Only System

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, 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 a 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 companies 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 DTC Participants, which will receive a credit for such purchases 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 or 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 interest 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 the 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 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.

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Authority for Issuance

The Bonds, which are the first issuance by the District of revenue bond debt, are issued pursuant to the Bond Resolution, Chapters 49 and 54 of the Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. Issuance of the Bonds has been further authorized by the TCEQ.

Outstanding Bonds

The District has no outstanding debt payable from revenues, ad valorem taxes or a combination of both. At elections held in 1975 and 1981, the voters of the District authorized the issuance of an aggregate of \$9,115,000 in combination unlimited tax and revenue bonds for waterworks, wastewater, and drainage facilities. \$7,955,000 of such bonds were issued through 1982 and \$1,160,000 in authorized unlimited tax bonds remain unissued. The District has no current plans to issue any combination unlimited tax and revenue bonds.

Transfer and Exchange

The Bonds will be transferable only on the bond register kept by the Paying Agent/Registrar and are exchangeable for an equal principal amount of Bonds of the same maturity and of any authorized denomination, in each case upon surrender of the Bonds to be transferred or exchanged at the designated office of the Paying Agent/Registrar duly endorsed, or accompanied by executed instructions of the registered owner or his duly authorized representative. The District is not required to transfer or exchange any Bond during the 15-day period preceding any interest payment date. No service charge will be made for any transfer or exchange, but the District may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Mutilated, Destroyed, Lost or Stolen Bonds

The District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds at the corporate trust office of the Paying Agent/Registrar, on receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and the Paying Agent/Registrar of security or indemnity to keep them harmless. The District and the Paying Agent/Registrar may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Defeasance

The District may discharge its obligations to the registered owners of any or all of the Bonds to pay principal and interest thereon in any manner now or hereafter permitted by law, including without limitation by depositing with the Paying Agent/Registrar, or with the Comptroller of Public Accounts of the State of Texas, either (i) cash in an amount equal to the principal amount of the Bonds plus interest thereon to the date of maturity, or (ii) pursuant to an escrow or trust agreement, cash and/or direct obligations of the United States of America or obligations the principal and interest of which are unconditionally guaranteed by the United States of America, in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount of such Bonds plus interest thereon to the date of maturity. Upon such deposit, such Bonds shall no longer be regarded to be outstanding or unpaid.

Annexation

Under existing Texas law, if the District is annexed or incorporated into a municipality, the municipality is normally required to assume the District's assets and obligations (including the Bonds and the District's other outstanding bonds) and abolish the District within 90 days of the date of annexation. The District cannot make any representation about whether such an annexation will occur, nor can the District make any representation about the ability of an assuming municipality to make debt service payments on the Bonds or the District's other outstanding bonds. Municipalities in Texas are subject to various tax limitations imposed by constitution, statute and municipal charter, depending on the type of municipality. The District is currently within the extraterritorial jurisdiction of the City of Houston, which has the power to annex the District and other areas without consent of the annexed inhabitants, but in accordance with various provisions of law.

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and its water and wastewater systems, with the water and

wastewater systems of the district or districts with which it is consolidating, as well as its liabilities (which would include the Bonds). However, no representation is made concerning the likelihood of any consolidation.

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to Chapter 1201, Texas Government Code, and Section 49.186 Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and (b) legal investments and lawful security for the public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. The Bonds are also eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State of Texas or any political subdivision or public agency of the State of Texas and are lawful and sufficient security for those deposits to the extent of their market value.

Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than "A" or its equivalent to be legal investments for such entity's funds. 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 suitability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability of the Bonds for investment or collateral purposes.

SECURITY FOR THE BONDS

The following summary of the provisions of the Bond Resolution that describe the security for the Bonds is qualified by reference to the Bond Resolution, excerpts of which are included in "APPENDIX B--Selected Provisions of the Bond Resolution." Terms not otherwise defined herein have the meaning ascribed thereto as provided in the Bond Resolution.

Net Revenues

The District has pledged the Net Revenues to secure the payment of the Bonds and any additional bonds permissible to be issued by the District pursuant to the Bond Resolution which it may issue from time to time in the future (the "Additional Bonds") and has reserved the right, subject to certain conditions, to pledge the Net Revenues to secure the Additional Bonds (see "Issuance of Additional Bonds," below). The Bond Resolution defines "Net Revenues" as all of the revenues of every kind and nature received through the operation of the System, less the expenses of operation and maintenance paid thereof, including salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions as in the judgment of the Board, reasonably and fairly exercised, are necessary to keep the System in operation and render adequate service to the District and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the security of the Bonds or the Additional Bonds shall be deducted in determining Net Revenues. Depreciation and payments into and out of funds for the Bonds and any Additional Bonds shall never be considered maintenance and operation expenses. Additionally, the District has established a reserve fund (the "Reserve Fund") pledged to pay principal of or interest on the Bonds and Additional Bonds and covenants to maintain an amount equal to the Required Reserve, as described below (see "APPENDIX B--Selected Provisions of the Bond Resolution"). **The District has not covenanted or obligated itself to pay the Bonds from monies raised or to be raised from taxation.**

Reserve Fund

In the Bond Resolution, the District covenants to accumulate and maintain a reserve for the payment of the Bonds and Additional Bonds (the "Required Reserve") equal to the lesser of (i) the Average Annual Debt Service Requirements (calculated on a Fiscal Year basis and determined as of the date of issuance of the Bonds or the most recently issued series of Additional Bonds then Outstanding, or at the option of the District, at the end of each fiscal year) for the Bonds and Additional Bonds or (ii) the maximum amount in a reasonably required reserve fund for the Bonds and Additional Bonds from time to time that can be invested without restriction as to yield pursuant to section 148 of the Internal Revenue Code of 1986, as amended (the "Reserve Fund"), which Fund or account shall be maintained at an official depository of the District. All funds deposited into the Reserve Fund (excluding surplus funds which include earnings and income derived or received from deposits or investments which will be transferred to the Revenue Fund during such

period as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Bonds Similarly Secured, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last stated maturity or interest on the Bonds or Additional Bonds.

Upon issuance of the Bonds, the total amount required to be accumulated and maintained in the Reserve Fund is hereby determined to be \$249,483.85, equal to not less than the Average Annual Debt Service for the Bonds, to be initially funded from Bond proceeds. After the Required Reserve has been fully accumulated and while the total amount on deposit in the Reserve Fund is in excess of the Required Reserve, no monthly deposits shall be required to be made to the Reserve Fund.

As and when Additional Bonds are delivered or incurred, the Required Reserve shall be increased, if required, to an amount calculated in the manner provided in the first paragraph of this section. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit of the necessary amount of the proceeds of the issue or other lawfully available funds in the Reserve Fund immediately after the delivery of the then proposed Additional Bonds, or, at the option of the District, by the deposit of monthly installments, made on or before the 1st day of each month following the month of delivery of the then proposed Additional Bonds, of not less than 1/60th of the additional amount to be maintained in the Reserve Fund by reason of the issuance of the Additional Bonds then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Required Reserve. When and so long as the cash and investments in the Reserve Fund equal the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the issuance of Additional Bonds as provided in the preceding paragraph), the District covenants and agrees to cure the deficiency in the Required Reserve by resuming the Required Reserve Fund Deposits to said Fund or account from the Pledged Revenues, or any other lawfully available funds, such monthly deposits to be in amounts equal to not less than 1/60th of the Required Reserve covenanted by the District to be maintained in the Reserve Fund with any such deficiency payments being made on or before the 1st day of each month until the Required Reserve has been fully restored. The District further covenants and agrees that, subject only to the prior payments to be made to the Bond Fund, the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of the Bond Resolution and any other resolution pertaining to the issuance of Additional Bonds.

During such time as the Reserve Fund contains the Required Reserve, the District may, at its option, withdraw all surplus funds in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the Revenue Fund, unless such surplus funds represent proceeds of the Bonds, then such surplus will be transferred to the Bond Fund. The District hereby designates its Depository as the custodian of the Reserve Fund.

The District, at its option and consistent with the provisions of the Bond Resolution, may, to the extent permitted by then-applicable law, fund the Reserve Fund at the Required Reserve by purchasing an insurance policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve in the event funds on deposit in the Interest and Sinking Fund are not sufficient to pay the debt service requirements on the Bonds and Additional Bonds, if any. All bond resolutions adopted after the date hereof authorizing the issuance of Additional Bonds shall contain a provision to this effect.

In the event an insurance policy issued to satisfy all or part of the District's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve, the District may transfer such excess amount to any fund or account established for the payment of or security for the Additional Bonds, if any (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law.

Rate Covenant

The District will at all times collect for services rendered by the System such amounts as will be at least sufficient to pay all expenses of operation and maintenance, and to provide Net Revenues equal to 1.10 times the amount that is sufficient to pay the scheduled principal of and interest on the Bonds and Additional Bonds, if any, plus one times the amount (if any) required to be deposited in any reserve or contingency fund or account created for the payment and security of the Additional Bonds.

Issuance of Additional Bonds

The District expressly reserves and shall hereafter have the right to issue in one or more installments such other bonds as provided below. Such Bonds may be payable from and equally secured by a pledge of and first lien on the Net Revenues, to the same extent as pledged and in all things on a parity with the lien of these Bonds.

The District expressly reserves and shall hereafter have the right to issue in one or more installments the following:

(1) Additional Bonds. The District expressly reserves the right to issue Additional Bonds payable solely from the Net Revenues of the System, for the purpose of completing, repairing, improving, extending, enlarging, or replacing the System, or refund bonds or other obligations issued in connection with the System, and such bonds may be payable from and equally secured by a first lien on and pledge of said Net Revenues on a parity with the pledge thereof for these Bonds. Provided, however, that before the District can issue Additional Bonds payable solely from the Net Revenues of the System, an independent certified public accountant shall certify that the Net Earnings of the System for the last completed fiscal year or a 12 consecutive calendar month period ending no more than 90 days preceding the adoption of the resolution authorizing the Additional Bonds shall have been not less than 1.20 times the average annual debt service requirements of the Outstanding Bonds, the Bonds and any Additional Bonds. Additionally, in connection with the issuance of Additional Bonds, the President of the Board shall sign a written certificate to the effect that the District is not in default as to any covenant, condition or obligation in connection with the Outstanding Bonds, the Bonds and Additional Bonds and the bond resolutions authorizing the same and the Interest and Sinking Fund and the Reserve Fund each contain the amount then required to be therein.

At such time as the Outstanding Bonds are no longer outstanding, the Accountant, in making a determination of the Net Earnings, may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings of the System for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

(2) Inferior Lien Bonds. The District also reserves the right to issue inferior lien bonds and to pledge the Net Revenues of the System, to the payment thereof, such pledge to be subordinate in all respects to the lien of these Bonds and the Outstanding Bonds and any Additional Bonds.

Bondholders' Remedies

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

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

Debt Service Requirements

The following sets forth the debt service requirements on the Bonds:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$65,000	\$153,203	\$218,203
2020	80,000	179,944	259,944
2021	80,000	175,144	255,144
2022	85,000	170,344	255,344
2023	85,000	165,244	250,244
2024	90,000	160,994	250,994
2025	95,000	156,494	251,494
2026	95,000	151,744	246,744
2027	100,000	148,894	248,894
2028	105,000	145,769	250,769
2029	110,000	140,519	250,519
2030	115,000	135,019	250,019
2031	120,000	129,269	249,269
2032	120,000	123,269	243,269
2033	125,000	118,469	243,469
2034	135,000	113,469	248,469
2035	140,000	108,069	248,069
2036	145,000	102,469	247,469
2037	150,000	96,669	246,669
2038	160,000	90,669	250,669
2039	165,000	84,269	249,269
2040	170,000	77,669	247,669
2041	180,000	70,656	250,656
2042	185,000	63,231	248,231
2043	195,000	55,600	250,600
2044	205,000	47,556	252,556
2045	215,000	39,100	254,100
2046	225,000	29,963	254,963
2047	235,000	20,400	255,400
2048	<u>245,000</u>	<u>10,413</u>	<u>255,413</u>
	<u>\$4,220,000</u>	<u>\$3,264,516</u>	<u>\$7,484,516</u>

Average Annual Requirements (2019/2048) \$249,484
Maximum Annual Requirement (2020) \$259,944

Note: Totals may not add due to rounding.

BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$519.5 million, \$99.3 million and \$420.2 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

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THE DISTRICT

Authority, Purpose, and Functions

The District was created on September 7, 1972, by the Texas Water Rights Commission, predecessor of the TCEQ to provide water supply and distribution, wastewater collection and treatment and storm drainage facilities for the area within its boundaries. The creation of the District was confirmed at an election held August 18, 1973. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. The District is subject to the continuing supervision of the TCEQ.

Description and Location

The District, which contains approximately 432.8625 acres, lies entirely within Harris County and within the exclusive extraterritorial jurisdiction of the City of Houston. It is located approximately 13 miles northwest of Houston's Central Business District. Fairbanks North Houston Road bounds the District on the west and is located within two miles of the intersection of US Highway 290 and Fairbanks North Houston Road. Elevations range from 99 to 88 feet above mean sea level ("msl"). Approximately 180.5 acres lie within the 100-year flood plain.

Management of the District

The District is governed by the Board of Directors, which has control over and management supervision of all affairs of the District. All Board members own property and/or reside within the District. A directors' election is held within the District in May in even numbered years. Directors are elected to serve four-year, staggered terms. The current members and officers of the Board are listed below:

<u>Director</u>	<u>Office</u>	<u>Term Expires</u>
Christy Shepard	President	May 2022
Oscar Dominguez	Vice-President	May 2020
Terry M. Delasalle	Secretary	May 2020
Jeffrey William Blackwell	Treasurer	May 2022
Jim Haney	Assistant Secretary/Treasurer	May 2022

The District contracts for the following services:

Tax Assessor/Collector - The District's Tax Assessor/Collector is Equi-Tax, Inc., Houston, Texas.

Bookkeeper - The District's Bookkeeper is ETI Bookkeeping Services, Houston, Texas.

Auditor - The District's annual financial statements as of May 31, 2018 have been audited by McCall Gibson Swedlund Barfoot PLLC, Houston, Texas, Certified Public Accountants. See "APPENDIX A" for a copy of the District's May 31, 2018 audited financial statements.

Engineer - The consulting engineer for the District is Sherington-Humble, LLC, Houston, Texas.

Financial Advisor - Blich Associates, Inc., Houston, Texas, serves as Financial Advisor to the District.

Legal Counsel - The District has employed Michael A. Cole, P.C. as general counsel and as counsel in connection with the issuance of the Bonds.

Utility Operator - The System is operated by TNG Utility Corp., Spring, Texas.

Development of the District

Land within the District has been developed as the residential subdivisions of Woodland Trails West (Sections 1/9); Courtyard Homes III (Sections 1/2); and Woodland Gate. In addition, two homes on large lots as well as approximately 43.68 acres of commercial development has been developed. There remains approximately 11.84 acres of commercial land remaining undeveloped. As of May, 2018, there were 1,232 single family connections and 89 equivalent single family connections of commercial development within the District. Following is a table identifying current residential land usage:

	<u>Platted Lots</u>	<u>FEMA (a)</u>	<u>Homes</u>
Woodland Trails West			
Section 1	277	254	23
Section 2	212	30	182
Section 3	51	41	10
Section 4	296		296
Section 5	158		158
Section 6	32		32
Section 7	66		66
Section 8	10		10
Section 9	9		9
Courtyard Homes II			
Section 1	224		224
Section 2	202		202
Woodland Gate	18		18
2 Single-family Homes	<u>2</u>	<u>—</u>	<u>2</u>
Totals	<u>1,557</u>	<u>325</u>	<u>1,232</u>

(a) Due to previous flood events within the District prior to Hurricane Harvey, the Federal Emergency Management Agency (“FEMA”) has bought out approximately 325 houses. No homes flooded in Hurricane Harvey.

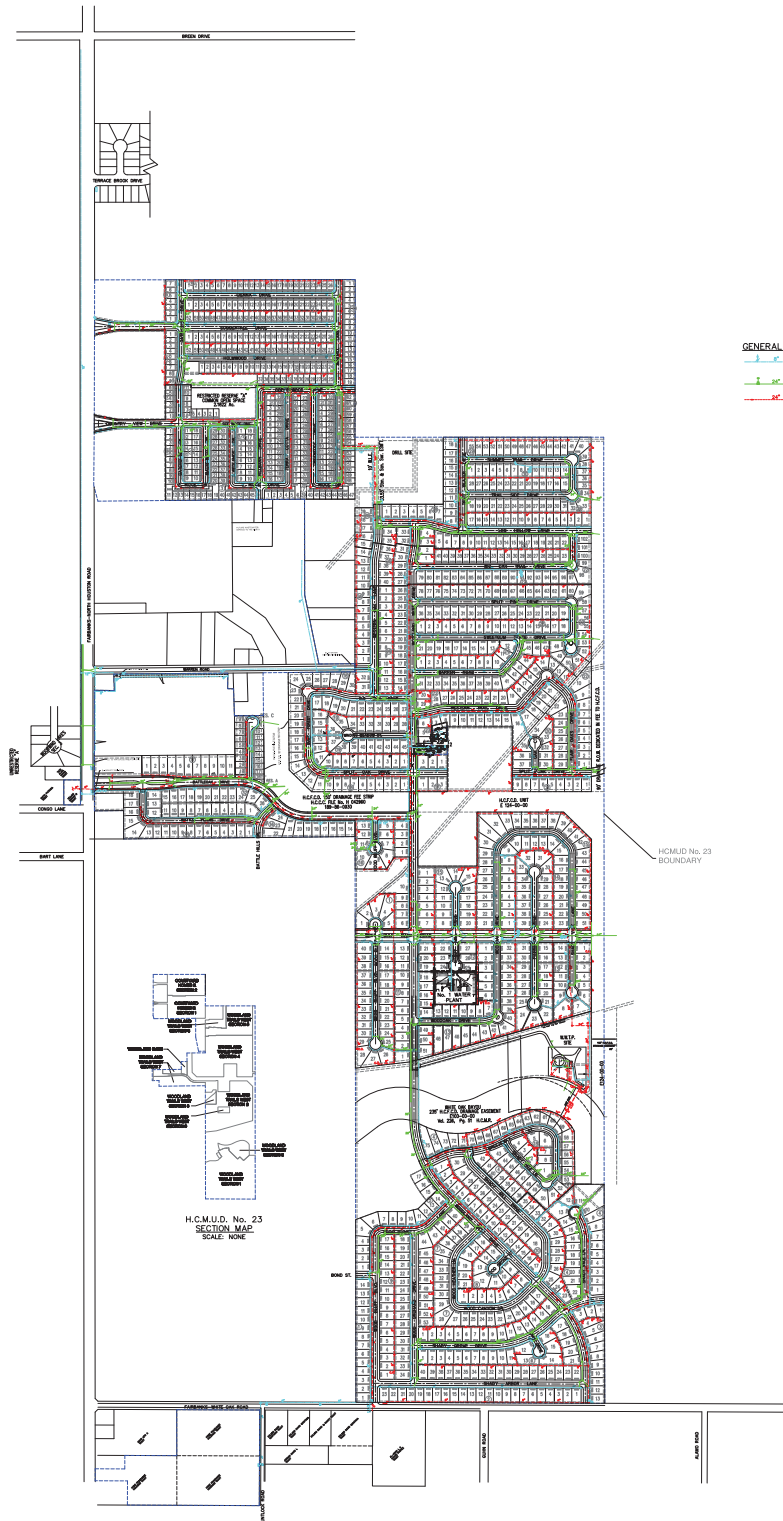
Photographs Taken in District (August 2018)







Boundary and Location Map



- GENERAL LEGEND**
- EXISTING WATERLINE/VALVES
 - HYDRANTS
 - EXISTING STORM LINE/M.H.'S/INLETS
 - EXISTING SANITARY LINE/M.H.'S LEADS



H.C.M.U.D. No. 23
SECTION MAP
SCALE NONE

H.C.M.U.D. No. 23
BOUNDARY

Sherrington, Inc.
Consulting Civil Engineer
 14000 Oldover Road
 Houston, Texas 77058
 P.E. Registration No. F-125

HARRIS COUNTY M.U.D. No. 23

DISTRICT UTILITY MAP

SCALE: 1" = 300'	PROJECT NUMBER: 075-00-001
DESIGNED: J.A.S.	DATE: FEBRUARY
DRAWN: R.A.H.	MARK: 2016

Path: G:\H.C.M.U.D. 23\DISTRICT_OVERALLS

REVENUE BOND COVERAGE

The following statements set forth in condensed form reflect the historical operations of the District's General Fund. Such information has been prepared based upon information obtained from the District's audited financial statements, to which reference is hereby made for further and complete information. See also "THE SYSTEM—Historical Operations of the General Fund" below.

	<i>Fiscal Years Ended May 31</i>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Revenues (a)	\$1,914,484	\$2,054,229	\$1,871,060	\$1,614,176	\$1,696,712
Total Expenditures	<u>1,531,203</u>	<u>1,813,138</u>	<u>1,315,359</u>	<u>1,369,595</u>	<u>1,310,840</u>
Available for Debt Svc	<u>\$383,281</u>	<u>\$241,091</u>	<u>\$555,701</u>	<u>\$244,581</u>	<u>\$385,872</u>
Avg Ann D/S	<u>\$249,484</u>				
Coverage	<u>153.63%</u>				

(a) Does not reflect the water and sewer rate increases effective July 1, 2018. See "THE SYSTEM—Rate Order," below.

THE SYSTEM

Regulation

The water, wastewater and storm water drainage facilities serving land within the District (the "System") have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, Harris County Engineering Department, Harris County Flood Control District and the City of Houston. During construction, facilities are subject to inspection by the District's Engineer and the foregoing governmental agencies.

Operation of the District's System is subject to regulation by, among others, the United States Environmental Protection Agency, the TCEQ and the City. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

Description of the System

According to the District's Engineer, the total number of connections projected for the District at full development of approximately 432.8625 acres is approximately 1,386 equivalent single family connections ("ESFC"). *In addition to the Bonds, there remain \$1,160,000 authorized but unissued waterworks and sewer system combination unlimited tax and revenue bonds, which in the opinion of the Engineer, are surplus since there is no current projected build-out remaining to serve the District, as the District is built out.* A description of the primary components of the System follows and is based upon information supplied by the Engineer based on drawings and data furnished by others.

Proceeds from the sale of the District's previously issued bonds were used to finance the construction or acquisition of underground water supply, water distribution lines, wastewater collection lines, wastewater treatment plant and storm water drainage facilities.

-Water Supply and Distribution-

Although the District contracts with the City of Houston for 4,538,000 gallons per month of surface water, currently at the rate of \$2.98 per thousand gallons, to supply 80% of the District's needs, the two existing water plants remain in operation to supply water for the balance of its needs, to supply water during periods of peak demands, and to provide reliability in the event transfer of water from City lines is interrupted for any reason.

The District's water supply is provided from two water wells, with a combined capacity of approximately 1,750 gallons per minute ("gpm") and can serve up to 1,768 ESFCs. The District entered into a Water Supply Agreement with Harris County Municipal Utility District No. 220 ("MUD 220") dated February 12, 2004, in which the District agreed to provide potable water in an amount not to exceed 174,038 gallons per day ("gpd") to MUD 220, including surface water purchased from the City. The District's water supply is capable of serving 1,875 ESFCs, which is sufficient to serve the projected 1,828 ESFCs at full development.

-Wastewater Collection and Treatment-

The District's wastewater is being treated at a 750,000 gpd regional wastewater treatment plant ("RWWTWP") located within the District. The District entered into a Sewage Disposal Contract with MUD 220 dated January 29, 2004, in which the District agreed to provide wastewater treatment for an amount not to exceed 133,900 gpd to MUD 220. Based on 300 gpd/ESFC, the RWWTWP is capable of serving 2,500 ESFC. As of April 12, 2018, the District had 1,326 active ESFC and MUD 220 had 442 active ESFC. The proposed improvements to the RWWTWP will result in the plant's capacity being reduced to 600,000 gpd, which at 300 gpd/ESFC, will be capable of serving 2,000 ESFCs.

The RWWTWP was designed around 1979 to serve 2,143 ESFCs, based upon 350gpd/ESFC. The proposed improvements to the RWWTWP will also incorporate the TCEQ's current design criteria as well as convert the RWWTWP from contact stabilization to conventional activated sludge. While these improvements and rehabilitation will result in less capacity (a reduction of 20%), the District's ESFCs have been reduced (due to FEMA buyouts occurring prior to Hurricane Harvey) from 2,143 to 1,828 (a reduction of 15%), which includes 442 ESFCs within Terrace Brook Subdivision in MUD 220.

- Stormwater Drainage -

The land within the District is relatively flat, with elevations ranging from 99 feet to 88 feet above mean sea level. Drainage improvements within the District generally consist of curb and gutter streets that drain through storm sewer piping to a man-made channel to White Oak Bayou.

According to the Federal Emergency Management Agency's Flood Insurance Rate Maps for Harris County effective June 18, 2007, all of the land located within the District lies outside the 100-year flood plain except for 180.5 acres located within or adjacent to White Oak Bayou.

Rate Order

The District's utility rate order, subject to change from time to time by the Board, is summarized in part below and became effective July 1, 2018. The previous utility rates are shown for informational purposes.

-Water Rates Residential (a)-

	<u>New Rates</u>	<u>Old Rates</u>
First 2,000 gallons	\$24.00 (minimum)	\$20.00 (minimum)
2,001 to 5,000 gallons	\$2.90 per 1,000 gallons	\$1.50 per 1,000 gallons
5,001 to 9,000 gallons	\$3.80 per 1,000 gallons	\$2.00 per 1,000 gallons
9,001 to 14,000 gallons	\$4.40 per 1,000 gallons	\$2.00 per 1,000 gallons
14,001 to 20,000 gallons	\$4.85 per 1,000 gallons	\$2.50 per 1,000 gallons
20,001 to 27,000 gallons	\$5.00 per 1,000 gallons	\$2.50 per 1,000 gallons
Over 27,000 gallons	\$6.30 per 1,000 gallons	\$3.00 per 1,000 gallons

-Sewer Rates Residential-

	<u>New Rates</u>	<u>Old Rates</u>
Flat Rate	\$27.00	\$22.50

(a) All customers are billed an additional charge equal to 33% of the City of Houston's wholesale water rate charged the District for water per thousand gallons for each one thousand gallons consumed by a customer, excepting the first two thousand gallons, which charge is in addition to the rates and charges shown above.

Note: Based upon residential water consumption for the twelve months ended January 31, 2018, the annual increase resulting from the residential water and sewer rates shown above would approximate \$250,000 annually. Commercial water and sewer rates were increased by a similar percentage.

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Historical Operations of the General Fund

The following statement sets forth in condensed form the historical operations of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such information has been prepared based upon information obtained from the District's audited financial statements, to which reference is hereby made for further and complete information.

	<i>Fiscal Years Ended May 31</i>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues					
Property Taxes	\$757,338	\$668,397	\$633,886	\$598,806	\$573,374
Water Service	617,266	715,912	808,580	614,379	727,545
Wastewater Service	406,183	370,443	342,707	332,936	336,083
Tap/Connection Fees	1,575	192,045	4,920	0	0
Other Revenues	<u>132,122</u>	<u>107,432</u>	<u>80,967</u>	<u>68,055</u>	<u>59,710</u>
Total Revenues	\$1,914,484	\$2,054,229	\$1,871,060	\$1,614,176	\$1,696,712
Expenditures					
Professional Fees	\$81,464	\$122,852	\$92,355	\$132,444	\$136,422
Contracted Services	452,010	440,093	426,162	416,316	412,681
Purchased Water Service	186,624	183,880	167,271	155,517	159,933
Utilities	150,480	150,003	163,572	146,614	158,900
Repairs & Maintenance.	317,455	661,419	226,353	286,069	227,274
Other Expenditures	<u>343,170</u>	<u>254,891</u>	<u>239,646</u>	<u>232,635</u>	<u>215,630</u>
Total Expenditures	<u>\$1,531,203</u>	<u>\$1,813,138</u>	<u>\$1,315,359</u>	<u>\$1,369,595</u>	<u>\$1,310,840</u>
Net Revenues (Expend.)	<u>\$383,281</u>	<u>\$241,091</u>	<u>\$555,701</u>	<u>\$244,581</u>	<u>\$385,872</u>
Beginning Fund Balances	\$2,810,263	3,057,272	2,857,455	2,661,084	2,919,494
Capital Improvements	(126,882)	(488,100)	(355,884)	(48,210)	(692,165)
Sale of Capacity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>47,883</u>
Year-End Fund Balance	<u>\$3,066,662</u>	<u>\$2,810,263</u>	<u>\$3,057,272</u>	<u>\$2,857,455</u>	<u>\$2,661,084</u>
Cash/Inv at Year-End (a)	<u>\$3,106,609</u>	<u>\$2,852,256</u>	<u>\$2,916,690</u>	<u>\$2,846,566</u>	<u>\$2,695,928</u>
Percent of Ann Expenses	202.89%	157.31%	221.74%	207.84%	205.66%
Active Water Connections	1,192	1,198	1,179	1,190	1,179

(a) Net of security deposits.

The District has no general obligation debt outstanding and does not currently levy an ad valorem tax rate for debt service. Accordingly, the following sections (“TAX PROCEDURES” and “TAX AND OTHER DATA”) are presented herein as general information regarding the District’s financial condition. No ad valorem taxes are pledged to the Bonds.

TAX PROCEDURES

Authority To Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the District’s outstanding bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The Board also is authorized to levy and collect annual ad valorem taxes for the administration, operation and maintenance of the District and its properties and for the payment of certain contractual obligations other than bonds if such taxes are authorized by vote of the District's electors at an election. Such an election was held on August 18, 1973, at which a maintenance tax without limitation as to rate or amount was authorized. For the 2018 tax year, the District levied a maintenance tax rate of \$0.46 per \$100 taxable valuation. No debt service tax rate was set. See "TAX DATA--Tax Collection History."

Exempt Property

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made to levy taxes against tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt real property include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; non-profit cemeteries; certain household goods, family supplies and personal effects; and certain property owned by qualified charitable, religious, veterans, youth, fraternal, or educational organizations. Property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty is exempt to between \$5,000 and \$12,000 depending on the disability rating of the veteran. State law further mandates a complete exemption for the residential homestead of disabled veterans determined to be 100% disabled by the U.S. Department of Veterans Affairs. Subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled such exemption on the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. Subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. Finally, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead if the surviving spouse has not remarried since the first responder’s death, and said property was the first responder’s residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

If approved by the Board or through a process of petition and referendum by the District's voters, residence homesteads of certain persons who are disabled or at least 65 years old are exempt to the extent of \$3,000 or such higher amount, as the Board or the District's voters may approve. The District's tax assessor is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. The District currently grants a \$25,000 homestead exemption to persons who are 65 years of age or older and to disabled homestead owners.

The Board also may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt and the granting of the homestead exemption would impair the obligation or the contract by which the debt was created, then the Board may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged. The District currently grants no percentage homestead exemption.

Harris County may designate all or part of the area within the District as a reinvestment zone, and the District, Harris County, Cypress Fairbanks Independent School District, or the City of Houston may thereafter enter into tax abatement agreements with owners of real property within the zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction, for a period of up to 10 years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. None of the area within the District has been designated as a reinvestment zone to date.

Appraisal of Taxable Property

The Texas Property Tax Code (the "Property Tax Code") establishes an appraisal district and an appraisal review board in each county of the State of Texas. The appraisal district is governed by a board of directors which is elected by the governing bodies of cities, towns, the county, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district, and of the county. The board of directors selects a chief appraiser to manage the appraisal office of the appraisal district. All taxing units within Harris County, including the District, are included in the Harris County Appraisal District (the "Appraisal District"). The Appraisal District is responsible for appraising property within the District, subject to review by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll approved by the Appraisal Review Board must be used by the District in establishing its tax rolls and tax rate. The valuation and assessment of taxable property within the District is governed by the Property Tax Code.

Assessment and Levy

Generally, all taxable property in the District (other than any qualifying agricultural or timber land) must be appraised at 100% of market value as of January 1 of each tax year, subject to review and approval by the Appraisal Review Board. However, houses held for sale by a developer or builder which remain unoccupied, are not leased or rented, and produce no income are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business. Valuation of houses at inventory level in future years could reduce the assessed value of developer and builder house inventory within the District. Certain land may be appraised at less than market value under the Property Tax Code. Upon application of a landowner, land which qualifies as "open-space land" is appraised based on the category of land, agriculture and hunting or recreational leases. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

The chief appraiser must give written notice to each owner if the appraised value of his property is greater than it was in the preceding year, if the appraised value of the property is greater than the value rendered by the property owner, or if the property was not on the appraisal roll in the preceding year. In addition, the chief appraiser must give written notice to each property owner whose property was reappraised in the current year or if ownership of the property changed during the preceding year. The Appraisal Review Board has the ultimate responsibility for determining the value of all taxable property within the District; however, any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board by filing suit in Texas district court. Prior to such appeal and prior to the delinquency date, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the

court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption. The District may not, however, protest a valuation of individual property.

The rate of taxation is set by the Board of the District based upon the valuation of property within the District as of the preceding January 1 and based upon the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations.

The District is responsible for the levy and collection of its taxes and will continue to do so unless the Board or the qualified voters of the District or of Harris County at an election held for such purpose determines to transfer such functions to the Appraisal District or another taxing unit.

The District is required to publish a notice of, and hold a public hearing on the tax rate proposed to be levied in the current year. The notice must set forth a comparison of the tax rate proposed for the current year to the tax rate set in the preceding year. If the proposed combined debt service, operation and maintenance and contract tax rates imposes a tax more than 1.08 times the amount of tax imposed in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead, disregarding any homestead exemption available to the disabled or persons 65 years of age or older, the qualified voters of the taxing jurisdiction by petition of ten percent of the registered voters in the taxing jurisdiction may require that an election be held to determine whether to reduce the operation and maintenance tax to the rollback tax rate.

Collection

Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. However, a person over 65 years of age is entitled by law to pay current taxes on his residence homestead in installments or to defer taxes without penalty during the time he owns and occupies the property as his residence homestead. The date of the delinquency of a tax bill may be postponed if the tax bill is mailed after January 10. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, 1% for each month thereafter to June 30 and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, if the District engages an attorney for collection of delinquent taxes, the Board may impose a further penalty not to exceed 20% on all taxes, penalty and interest unpaid on July 1.

Taxes levied by the District are a personal obligation of the person who owns or acquires the property on January 1 of the year for which the tax is imposed. The District has a statutory lien for unpaid taxes on real property against which the taxes are assessed. In the event a taxpayer fails to make timely payment of taxes due the District, the District may file suit to foreclose its lien securing payment of the tax, to enforce personal liability for the tax, or both. The District's tax lien is on a parity with the tax liens of the other state and local jurisdictions levying taxes on property within the District. Whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. In the absence of such federal law, the District's tax lien takes priority over a lien of the United States. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other federal, state and local taxing jurisdictions, by effects of the foreclosure sale price attributable to market conditions, by taxpayer redemption rights, or by bankruptcy proceedings which restrain the collection of a taxpayer's debts.

Reappraisal of Property after Disaster

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property. Although the Texas governor declared Harris County (and therefore the District) a disaster area after Hurricane Harvey, the District did not authorize a reappraisal of property in the District.

Tax Payment Installments after Disaster

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the

property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date. The District does not anticipate that taxpayers in the District, if any, that choose to pay taxes in installments as a result of Hurricane Harvey will have a material effect on the District's finances.

TAX AND OTHER DATA

Tax Collection History

The following table sets forth the historical tax collection experience of the District for the tax years indicated. Such table has been prepared based upon information from District records. Reference is made to such records and statements for further and complete information:

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Debt Rate</u>	<u>M&O Rate</u>	<u>Total Rate</u>	<u>Levy</u>	<u>Percent Current</u>	<u>Percent Total</u>	<u>Yr End May 31</u>
2008	\$133,451,991	\$0.00	\$0.48	\$0.48	\$640,707	95.15%	102.02%	2009
2009	125,509,422	0.00	0.48	0.48	602,720	95.66%	101.23%	2010
2010	121,532,470	0.00	0.48	0.48	583,492	96.42%	100.61%	2011
2011	125,884,154	0.00	0.48	0.48	604,670	67.64%	100.95%	2012
2012	120,736,749	0.00	0.48	0.48	579,820	96.34%	98.45%	2013
2013	120,045,901	0.00	0.48	0.48	576,671	96.68%	99.43%	2014
2014	124,926,606	0.00	0.48	0.48	602,877	96.31%	99.32%	2015
2015	136,112,779	0.00	0.47	0.47	640,324	96.52%	98.99%	2016
2016	141,522,374	0.00	0.47	0.47	667,063	97.57%	100.20%	2017
2017	165,468,314	0.00	0.46	0.46	761,303	97.90%	99.48%	2018
2018	180,617,805	0.00	0.46	0.46	830,842	In	Process	2019

Principal Taxpayers

The following table sets forth the District's principal taxpayers and was provided by the District's Tax Assessor/Collector based upon the 2017 and 2016 certified tax rolls (which reflect ownership of property as of January 1, 2017 and 2016, respectively) according to the records of the Appraisal District:

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>2017 Taxable Value</u>	<u>% of '17 A.V.</u>	<u>2016 Taxable Value</u>	<u>% of '16 A.V.</u>
7440 Fairbanks LLC	Warehouse	\$9,474,648	5.73%	(a)	
Excel Grocery Distribution	Wholesale Grocer	9,424,665	5.70%	\$6,924,089	4.89%
JOGA LLC	Warehouse	5,000,000	3.02%	4,416,796	3.12%
Stripes LLC	Gas Station	2,240,007	1.35%	2,252,575	1.59%
Lanmac Holdings LP	Warehouse	1,943,707	1.17%	1,961,878	1.39%
Fairbanks Center Ltd	Strip Center	969,667	0.59%	943,920	0.67%
Centerpoint Energy Electric	Electric Utility	815,210	0.49%	798,070	0.56%
James Thompson	Homes	745,223	0.45%	(a)	
SGJGM Family Limited Ptnr	Acreage	734,040	0.44%	(a)	
Ensource Corporation	Warehouse	706,893	0.43%	631,005	0.45%
Axis Texas Development Grp	Light Industrial	(a)		1,557,602	1.10%
Los Pinos Bakery	Bakery	(a)		646,009	0.46%
Adolph O Susholtz Family Tr	Acreage	(a)		642,286	0.45%
Total--Top Ten		<u>\$32,054,060</u>	<u>19.37%</u>	<u>\$20,774,230</u>	<u>14.68%</u>

(a) Not among top ten this year.

Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the tax roll valuations indicated:

	<u>2017 Tax Year</u>		<u>2016 Tax Year</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Land	\$30,785,382	17.35%	\$26,553,913	17.35%
Improvements	132,208,836	74.49%	113,915,779	74.45%
Personal	<u>14,480,323</u>	<u>8.16%</u>	<u>12,547,101</u>	<u>8.20%</u>
Total Appraised Value	\$177,474,541	100.00%	\$153,016,793	<u>100.00%</u>
Less: Exemptions	<u>(12,006,227)</u>		<u>(11,494,419)</u>	
Total Taxable Value	<u>\$165,468,314</u>		<u>\$141,522,374</u>	

	<u>2015 Tax Year</u>		<u>2014 Tax Year</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Land	\$25,563,858	17.35%	\$24,514,058	18.09%
Improvements	108,641,471	74.45%	99,523,002	73.44%
Personal	<u>13,061,843</u>	<u>8.20%</u>	<u>11,483,773</u>	<u>8.47%</u>
Total Appraised Value	\$147,267,172	100.00%	\$135,520,833	100.00%
Less: Exemptions	<u>(11,154,393)</u>		<u>(10,594,227)</u>	
Total Taxable Value	<u>\$136,112,779</u>		<u>\$124,926,606</u>	

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, a tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on January 1 of that year. The tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administrative, and/or general revenue purposes.

<u>Taxing Entities</u>	<u>2017 Tax Rates</u>
Cypress Fairbanks Independent School District	\$1.440000
Harris County	0.418010
Harris County Department of Education	0.005195
Harris County Emergency Services District No. 9	0.052710
Harris County Flood Control District	0.028310
Harris County Hospital District	0.171100
Lone Star College System	0.107800
Port of Houston Authority	<u>0.012560</u>
Overlapping Taxes	\$2.235685
The District	<u>0.460000</u>
Total Direct & Overlapping Taxes	<u>\$2.695685</u>

Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdiction and/or the Texas Municipal Reports. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes. See "TAX DATA--Estimated Overlapping Taxes."

<u>Jurisdiction</u>	<u>Debt As Of July 1, 2018</u>	<u>Overlapping Percent</u>	<u>Overlapping Amount</u>
Cypress Fairbanks Independent School District	\$2,517,955,000	0.333%	\$8,384,790
Harris County (a) (b)	2,484,769,361	0.038%	944,212
Harris County Department of Education	6,555,000	0.038%	2,491
Harris County Flood Control District	83,075,000	0.038%	31,569
Harris County Hospital District	59,490,000	0.038%	22,606
Lone Star College System	638,425,000	0.087%	555,430
Port of Houston Authority	638,829,397	0.038%	<u>242,755</u>
Estimated Overlapping Debt			<u>\$10,183,853</u>

(a) Includes \$276,095,000 Toll Tax and Subordinate Lien Road Bonds, which have historically been paid from revenues but not taxes.

(b) Includes \$470,745,000 Flood Control Contract Bonds, payable from Harris County tax funds.

RISK FACTORS

General

The Bonds, which are obligations of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas or any other political subdivision, will be secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. At this point in the development of the District, the potential increase in taxable values of property is directly related to the demand for residential and commercial development, not only because of general economic conditions, but also due to particular factors discussed below.

Hurricane Harvey

The Houston area, including Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas gulf coast on August 25, 2017 and historic levels of rainfall during the succeeding four days.

According to the District's Operator and Engineer, no flooding during Hurricane Harvey was reported within the District.

On or about August 23, 2017, in anticipation of Harvey's landfall, Governor Greg Abbott issued a proclamation declaring a state of disaster in numerous counties located along the Texas gulf coast, including Harris County. The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value

immediately after the disaster. At this time, the Board has not authorized a reappraisal of property located within the District. The District is not bound by a reappraisal of property that is authorized by another taxing unit and not authorized by the District.

Hurricane Harvey is expected to have a significant short-term impact on the Houston region's economy. It may also have an adverse long-term impact on business activity and development in the region, especially if further destructive weather events occur in the near term. The District does not have a reliable estimate of how many homes damaged by Hurricane Harvey remain unrepaired.

Recent Extreme Weather Events; Hurricane Harvey

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area, including the District, has experienced three storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

Specific Flood Type Risks

Ponding (or Pluvial) Flood: Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee or reservoir.

Riverine (or Fluvial) Flood: Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and of developed lots which are currently being marketed by the Developer for sale to homebuilders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions in Houston, the State of Texas and the nations and those conditions can affect the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability (see "Credit Market and Liquidity in the Financial Markets," below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 30 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A continued downturn in the economic conditions of Houston and further decline in the nation's real estate and financial markets could continue to adversely affect development and home-building plans in the District and restrain the growth of the District's property tax base.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The growth of taxable values in the District is directly related to the vitality of the housing development and commercial building industry in the Houston metropolitan area. The housing and building industry has historically been a cyclical industry, affected by both short and long-term interest rates, availability of mortgage and development funds, labor conditions and general economic conditions. During the late 1980's, an oversupply of single-family residential housing in the Houston metropolitan market and the general downturn in the Houston economy adversely affected the local residential development and construction industries. In addition to a decline in housing demand, mortgage foreclosure by private banks and government and financial institutions depressed housing prices and the value of residential real estate in the Houston metropolitan area. The Houston economy is still somewhat dependent on energy prices and a precipitous decline in such prices could result in additional adverse effects on the Houston economy.

Overlapping Tax Rates

Consideration should be given to the total tax burden of all overlapping jurisdictions imposed upon property located within the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The combination of the District's and the overlapping taxing entities' tax rates is high as compared to the combined tax rates generally levied upon comparable developments in the market area. Consequently, an increase in the District's tax rate above those anticipated above may have an adverse impact on future development or the construction of additional taxable improvements in the District. See "DISTRICT DEBT--Estimated Overlapping Debt" and "TAX DATA--Estimated Overlapping Taxes."

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Because ownership of the land within the District may become highly fragmented among a number of taxpayers, attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer.

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Bond Resolution, the registered owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe

and perform the covenants, obligations or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests 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 relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on the property of the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of registered owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owner's remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivisions.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a registered owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the registered owner's claim against a district.

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

Environmental Regulation and Air Quality

Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

- Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
- Restricting the manner in which wastes are released into the air, water, or soils;
- Restricting or regulating the use of wetlands or other property;
- Requiring action to prevent or mitigate pollution;
- Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a municipal utility district or other

utility district (“Utility Districts”) for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and injunctive relief as to future compliance of and the ability to operate the Utility District’s water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area’s ability to grow and develop. The following is a discussion of certain environmental concerns that relate to Utility Districts, including the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact a utility District.

Air Quality/Greenhouse Gas Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the TCEQ may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston Bay area (“HGB area”) — Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties — was originally designated by the EPA as a moderate ozone nonattainment area under the “8-hour” ozone standard of 80 parts per billion (“ppb”) (“the 1997 Ozone Standard”). Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA’s “8-hour” ozone standards are met. To provide for reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. On June 15, 2007, the Governor of the State of Texas requested a voluntary reclassification of the HGB area to a severe ozone nonattainment area under the 1997 Ozone Standard, with an attainment date of June 15, 2019. On October 1, 2008, the EPA granted this request. The severe classification gives the HGB area more time to reach attainment under the 1997 Ozone Standards. It is possible that additional controls will be necessary to allow the HGB area to reach attainment by June 15, 2019. These additional controls could have a negative impact on the HGB area’s economic growth and development.

In 2008, the EPA lowered the ozone standard to 75 ppb (the “2008 Ozone Standard”), and designated the HGB area as a marginal ozone nonattainment area. The HGB was required to reach attainment under the 2008 Ozone Standard no later than July 20, 2018, but is currently designated as a moderate nonattainment area under such standard. Because the HGB area has failed to demonstrate progress in reducing ozone concentrations and failed to meet EPA’s standards, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard to 70 ppb (the “2015 Ozone Standard”). On May 1, 2018, the EPA designated the HGB area as a marginal ozone nonattainment area under the 2015 Ozone Standards. The HGB designation became effective on August 3, 2018. A designation of nonattainment for ozone or any pollutant can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. This designation could additionally make it more difficult for the HGB area to demonstrate progress in reducing ozone concentration.

In order to comply with the EPA’s standards for the HGB area, the TCEQ has established a state implementation plan (“SIP”) setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area.

Water Supply & Discharge Issues. Water supply and discharge regulations that Utility Districts, including the District, may be required to comply with involve: (1) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the Safe Drinking Water Act (“SDWA”) and the EPA's National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ's Water Supply Division, potable (drinking) water provided by a Utility District to more than twenty-five (25) people or fifteen (15) service connections is subject to extensive federal and state regulation as a public water supply system, which includes, among other requirements, frequent sampling and analyses. Utility District's must generally provide treated water that meets the primary and secondary drinking water

quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. Additional or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

Operations of a Utility District's sewer facilities is subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act ("CWA"). The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued pursuant to the National Pollutant Discharge Elimination System ("NPDES") program. On September 14, 1998, the EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant District Elimination System program ("TPDES").

Construction activities and operations of Utility Districts, such as the District, are also potentially subject to stormwater discharge permitting requirements under provisions from Section 402 of the Clean Water Act and Chapter 26 of the Texas Water Code. The permitting process is, in most instances, managed by the TCEQ through its TPDES. TPDES permits set limits on the type of and quality of discharge, in accordance with state and federal laws and regulations. The CWA and the Texas Water Code require municipal wastewater treatment plants to establish the total maximum allowable daily load ("TMDL") of certain pollutants into the water bodies. The TMDLs that Utility District's may discharge may have an impact on the Utility District's ability to obtain and maintain TPDES permits.

The TCEQ reissued the TPDES Construction General Permit (TXR150000) on February 19, 2013. TXR150000 became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state. Construction activity by the District (or by its Developer) may require coverage under TXR150000.

The TCEQ reissued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (TXR040000) on December 13, 2013. TXR040000 became effective on December 13, 2013 and authorizes the discharge of stormwater to surface waters within the state from small municipal separate storm sewer systems ("Small MS4s"). TXR040000, as reissued, impacts a much greater number of Small MS4s that were not subject to the prior permit due to the 2010 Urbanized Area data released from the US Census Bureau. TXR040000, as reissued, also contains more stringent requirements compared to the prior permit. Small MS4s that are subject to TXR040000, as reissued, were required to apply for authorization under such permit by June 11, 2014. Notwithstanding the foregoing, the District is located within Harris County and its Small MS4 is subject to regulation by Harris County. Harris County, along with the City of Houston, Harris County Flood Control District, and the Texas Department of Transportation (collectively, the "Joint Task Force") have been issued a joint permit by the EPA which authorizes the discharge of stormwater to surface waters within the state from their respective separate storm sewer systems. Joint Task Force members regulate stormwater discharges within their respective jurisdictions. Harris County regulates the District's Small MS4 and, therefore, the TCEQ does not at this time require the District to obtain coverage under TXR040000. Small MS4 regulation by Joint Task Force members may change in the future and the TCEQ may require the District to independently obtain coverage under TXR040000 in the future. If the District is required to obtain coverage under TXR040000 at a future date, the District could incur substantial costs to develop and implement the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with TXR040000.

Operations of Utility Districts, including the District, are also potentially subject to requirements and restrictions under the CWA regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.

Future Debt

The District will have \$1,160,000 principal amount of combination unlimited tax and revenue bonds authorized by the District's voters which remain unissued. The District has the right to issue such additional bonds as may hereafter be

approved by both the Board and voters of the District. Any such authorized but unissued bonds may be issued by the District from time to time as needed.

The District has no plans to issue additional bonds within the next twelve months.

Continuing Compliance with Certain Covenants

The Bond Resolution contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance.

Marketability

The District has no understanding (other than the initial reoffering yields) with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of other bonds which are more generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS—Prices and Marketability."

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General, however, does not pass upon or guarantee the security of the Bonds as an investment, nor has the Attorney General passed upon the adequacy or accuracy of the information contained in this Official Statement.

Future and Proposed Legislation

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

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript of certain proceedings had incident to the authorization and issuance of the Bonds, including a certified copy of the unqualified approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The District will also furnish the approving legal opinion of Michael A. Cole, P.C., Bond Counsel, to the effect that based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, against taxable property within the District.

Legal Review

In its capacity as Bond Counsel, Michael A. Cole, P.C. has reviewed the information in this Official Statement under the captioned sections "THE BONDS," "THE DISTRICT--Authority, Purpose and Functions," "TAX PROCEDURES,"

“TAX MATTERS,” “LEGAL MATTERS—Legal Opinions,” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarized the laws and documents referred to therein. Bond Counsel has not independently verified factual information contained in this Official Statement, nor conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Michael A. Cole, P.C. also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, are contingent upon the sale and delivery of the Bonds.

Orrick, Herrington & Sutcliffe LLP serves as Disclosure Counsel to the District. The legal fees of Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest on or the principal of the Bonds; in any manner questioning the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the titles of the present officers of the District.

No Material Adverse Change

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

TAX MATTERS

In the opinion of Michael A. Cole, P.C., bond counsel to the District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is

added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel’s engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit

examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will designate the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated “bank-qualified” investments.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the SEC regarding the District’s continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of bonds outstanding and no person is committed by contract or other arrangement with respect to the payment of the Bonds. As required by the exemption, in the Bond Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”) or any successor to its functions as a repository through its Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain financial information and operating data annually to the MSRB. The information to be updated includes the quantitative financial information and operating data of the general type included in the District’s audited financial statements and supplemental schedules as found in “APPENDIX A— Financial Statements of the District.” The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2019. Any information concerning the District so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report of the District is not complete within such period, then the District shall provide unaudited financial statements for the applicable entity and fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

The District's current fiscal year end is May 31. Accordingly, it must provide updated information by November 30 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.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final

determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the SEC Rule 15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through the EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders 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 to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if (1) 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 (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Registered Owners 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 provided. The District may also amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent an underwriter from lawfully purchasing the Bonds in the initial offering.

Compliance with Prior Undertakings

The District has not been subject to a continuing disclosure agreement pursuant to the Rule since 2004.

FORWARD-LOOKING STATEMENTS

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

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

PREPARATION OF OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the District's records, the District's Engineer, the Appraisal District, the District's Tax Assessor/Collector and other sources believed to be reliable. The District, however, makes no representation as to the accuracy or completeness of the information derived from such sources. The summaries of the statutes, resolutions, orders, agreements and engineering and other related reports 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 such provisions, and reference is made to such documents for further information.

Consultants

The information contained in this Official Statement relating to the physical characteristics of the District, engineering and the description of the System generally and, in particular, that engineering information included in the sections captioned "THE DISTRICT" and "THE SYSTEM" has been provided by the District's Engineer and has been included herein in reliance upon the authority of such firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning historical breakdown of District valuations, principal taxpayers and collection rates contained in the sections captioned "TAX DATA," "TAX PROCEDURES" and "DISTRICT DEBT" has been provided by the Appraisal District and the District's Tax Assessor/Collector and has been included herein in reliance upon their authority as experts in the field of tax assessing.

The financial statements contained in "APPENDIX A--Financial Statements of the District" have been included in reliance upon the accompanying report of the District's Auditor.

Updating the Official Statement

If, subsequent to the date of the Official Statement, the District learns, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its

obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds to the Underwriter) until all of the Bonds have been sold to ultimate customers.

Financial Advisor

Blitch Associates, Inc. is employed as the Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

Certification of Official Statement

The District, acting through the Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements and descriptions pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the Board has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading; however, the Board can give no assurance as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement is duly certified and approved by the Board of Directors of Harris County Municipal Utility District No. 23, Harris County, Texas as of the date specified on the first page hereof.

/s/ Christy Shepard
President, Board of Directors
Harris County Municipal Utility District No. 23
Harris County, Texas

APPENDIX A--Financial Statements of the District

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2018

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	7
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	8
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	9
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES	10
NOTES TO THE FINANCIAL STATEMENTS	11-21
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND	23
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	25-27
GENERAL FUND EXPENDITURES	28-29
INVESTMENTS	30
TAXES LEVIED AND RECEIVABLE	31-32
COMPARATIVE SCHEDULES OF REVENUES AND EXPENDITURES GENERAL FUND - FIVE YEARS	33-34
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	35-36

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 23
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of Harris County Municipal Utility District No. 23 (the "District"), as of and for the year ended May 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the District as of May 31, 2018, and the respective changes in financial position 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 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2018**

Management’s discussion and analysis of Harris County Municipal Utility District No. 23’s (the “District”) financial performance provides an overview of the District’s financial activities for the fiscal year ended May 31, 2018. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) fund financial statements and government-wide financial statements and (2) notes to the financial statements. The fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District’s annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District’s overall status. Financial reporting at this level uses a perspective like that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all the District’s assets, liabilities and, if applicable, deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District’s net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund type. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2018**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund financial statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$7,763,840 as of May 31, 2018.

A portion of the District's net position reflects its net investment in capital assets (land, buildings and equipment as well as water and wastewater facilities, less any debt used to acquire those assets that is still outstanding).

The following is a comparative analysis of government-wide changes in net position:

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 3,363,744	\$ 3,139,811	\$ 223,933
Capital Assets (Net of Accumulated Depreciation)	4,659,607	4,856,762	(197,155)
Total Assets	\$ 8,023,351	\$ 7,996,573	\$ 26,778
Current Liabilities	\$ 259,511	\$ 296,690	\$ 37,179
Net Position:			
Net Investment in Capital Assets	\$ 4,659,607	\$ 4,856,762	\$ (197,155)
Unrestricted	3,104,233	2,843,121	261,112
Total Net Position	\$ 7,763,840	\$ 7,699,883	\$ 63,957

The following table provides a summary of the District's operations for the years ended May 31, 2018, and May 31, 2017.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 760,406	\$ 666,476	\$ 93,930
Charges for Services	1,124,973	1,372,016	(247,043)
Other Revenues	33,818	14,122	19,696
Total Revenues	\$ 1,919,197	\$ 2,052,614	\$ (133,417)
Expenses for Services	(1,855,240)	(2,116,128)	260,888
Change in Net Position	\$ 63,957	\$ (63,514)	\$ 127,471
Net Position, Beginning of Year	7,699,883	7,763,397	(63,514)
Net Position, End of Year	\$ 7,763,840	\$ 7,699,883	\$ 63,957

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The General Fund fund balance increased by \$256,399, primarily due to property tax and service revenues exceeding operating expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal. Actual revenues were \$169,034 more than budgeted revenues. Actual expenditures were \$194,785 more than budgeted expenditures primarily due to the timing of capital expenditures.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2018**

CAPITAL ASSETS

Capital assets as of May 31, 2018, total \$4,659,607 (net of accumulated depreciation) and include land, buildings and equipment as well as water and wastewater systems. Significant capital asset events during the current fiscal year included the installation of SCADA systems at both water plants and engineering related to rehabilitation at the Regional Wastewater Treatment Plant.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 253,097	\$ 248,122	\$ 4,975
Construction in Progress	76,294		76,294
Capital Assets, Net of Accumulated Depreciation:			
Land Improvements	159,819	185,019	(25,200)
Buildings	27,320	34,402	(7,082)
Water System	3,382,300	3,528,861	(146,561)
Wastewater System	760,777	860,358	(99,581)
Total Net Capital Assets	\$ 4,659,607	\$ 4,856,762	\$ (197,155)

Additional information on the District's capital assets can be found in Note 5 of this report.

LONG-TERM DEBT ACTIVITY

The District retired all its bond debt on May 1, 2005.

OTHER INFORMATION

The District submitted a bond application to the Commission requesting approval to issue \$4,220,000 of revenue bonds to finance its share of the costs to rehabilitate the regional wastewater treatment plant and fund bond issuance costs. Approval was pending at year-end.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District No. 23's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 23, c/o Michael A. Cole, P.C., 5120 Bayard Lane, Houston, Texas 77006.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2018

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 175,904	\$	\$ 175,904
Investments	3,037,775		3,037,775
Receivables:			
Property Taxes	30,136		30,136
Penalty and Interest on Delinquent Taxes		7,435	7,435
Service Accounts	32,567		32,567
Prepaid Costs	23,056		23,056
Due from Other Governments	56,871		56,871
Land		253,097	253,097
Construction in Progress		76,294	76,294
Capital Assets (Net of Accumulated Depreciation)		4,330,216	4,330,216
TOTAL ASSETS	\$ 3,356,309	\$ 4,667,042	\$ 8,023,351
LIABILITIES			
Accounts Payable	\$ 118,987	\$	\$ 118,987
Due to Other Governments	31,876		31,876
Due to Taxpayers	1,578		1,578
Security Deposits	107,070		107,070
TOTAL LIABILITIES	\$ 259,511	\$ - 0 -	\$ 259,511
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	\$ 30,136	\$ (30,136)	\$ - 0 -
FUND BALANCE			
Nonspendable:			
Prepaid Costs	\$ 23,056	\$ (23,056)	\$
Assigned for Building and Boiler and Machinery Repairs	192,379	(192,379)	
Unassigned	2,851,227	(2,851,227)	
TOTAL FUND BALANCE	\$ 3,066,662	\$ (3,066,662)	\$ - 0 -
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,356,309		
NET POSITION			
Net Investment in Capital Assets		\$ 4,659,607	\$ 4,659,607
Unrestricted		3,104,233	3,104,233
TOTAL NET POSITION		\$ 7,763,840	\$ 7,763,840

The accompanying notes to the financial
statements are an integral part of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MAY 31, 2018

Total Fund Balance - Governmental Funds \$ 3,066,662

Amounts reported for governmental activities in the Statement of Net Position are different because:

Land, construction in progress and capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 4,659,607

Deferred inflows of resources related to property tax revenues and penalty and interest receivable for the 2017 and prior tax levies became part of recognized revenues in the governmental activities of the District. 37,571

Total Net Position - Governmental Activities \$ 7,763,840

The accompanying notes to the financial
statements are an integral part of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED MAY 31, 2018

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Property Taxes	\$ 757,338	\$ 3,068	\$ 760,406
Payments in Lieu Taxes	9,328		9,328
Water Service	617,266		617,266
Wastewater Service	406,183		406,183
Transfer Fees	2,035		2,035
Penalty and Interest	31,871	1,645	33,516
Tap Connection and Inspection Fees	1,575		1,575
Investment Revenues	33,818		33,818
Miscellaneous Revenues	55,070		55,070
TOTAL REVENUES	<u>\$ 1,914,484</u>	<u>\$ 4,713</u>	<u>\$ 1,919,197</u>
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 81,464	\$	\$ 81,464
Contracted Services	452,010		452,010
Purchased Water Service	186,624		186,624
Utilities	150,480		150,480
Repairs and Maintenance	317,455		317,455
Depreciation		324,037	324,037
Other	343,170		343,170
Capital Outlay	126,882	(126,882)	
TOTAL EXPENDITURES/EXPENSES	<u>\$ 1,658,085</u>	<u>\$ 197,155</u>	<u>\$ 1,855,240</u>
NET CHANGE IN FUND BALANCE	\$ 256,399	\$ (256,399)	\$
CHANGE IN NET POSITION		63,957	63,957
FUND BALANCE/NET POSITION - JUNE 1, 2017	<u>2,810,263</u>	<u>4,889,620</u>	<u>7,699,883</u>
FUND BALANCE/NET POSITION - MAY 31, 2018	<u>\$ 3,066,662</u>	<u>\$ 4,697,178</u>	<u>\$ 7,763,840</u>

The accompanying notes to the financial statements are an integral part of this report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2018**

Net Change in Fund Balance - Governmental Funds	\$	256,399
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenues are recorded in the accounting period for which the taxes are levied.		3,068
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the government-wide financial statements, revenues are recorded when penalty and interest are assessed.		1,645
Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(324,037)
Governmental funds report capital asset costs as expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases that meet the District's threshold for capitalization, and are owned and maintained by the District. All other capital asset purchases are expensed in the Statement of Activities.		<u>126,882</u>
Change in Net Position - Governmental Activities	\$	<u><u>63,957</u></u>

The accompanying notes to the financial statements are an integral part of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 23, located in Harris County, Texas (the “District”) was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”), effective September 7, 1972. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct and maintain parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on October 3, 1972, and the first bonds were sold on June 19, 1975.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenues and expenses in the government-wide Statement of Activities.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Governmental Funds Balance Sheet and a Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

Governmental Funds

The District has one governmental fund; therefore, this fund is a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, costs and general expenditures.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in governmental funds to be available if they are collectable within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost of \$5,000 or more and a useful life of at least two years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Land Improvements	20
Buildings	40
Water System	10-45
Wastewater System	10-45

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are wages subject to federal income tax withholding for payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

income, changes in net position, financial position, and cash flows. All assets, liabilities and deferred inflows and outflows of resources associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Governmental Funds Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The District does not have any restricted fund balances.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. As of May 31, 2018, the District had assigned \$192,379 for future repairs, see Note 7.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. BOND AUTHORIZATION

As of May 31, 2018, the District had authorized but unissued bonds in the amount of \$1,160,000 for utility facilities.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's bank deposits was \$175,904 and the bank balance was \$203,515. The bank balance was fully covered by federal depository insurance.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at May 31, 2018, as listed below:

	Cash
GENERAL FUND	\$ 175,904

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

As of May 31, 2018, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$3,037,775	\$3,037,775	\$ - 0 -	\$ - 0 -	\$ - 0 -

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2018, the District’s investment in TexPool was rated “AAAm” by Standard and Poor’s.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended May 31, 2018:

	June 1, 2017	Increases	Decreases	May 31, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 248,122	\$ 4,975	\$	\$ 253,097
Construction in Progress	<u> </u>	<u>126,882</u>	<u>50,588</u>	<u>76,294</u>
Total Capital Assets Not Being Depreciated	<u>\$ 248,122</u>	<u>\$ 131,857</u>	<u>\$ 50,588</u>	<u>\$ 329,391</u>
Capital Assets Subject to Depreciation				
Land Improvements	\$ 383,808	\$	\$	\$ 383,808
Buildings	227,412			227,412
Water System	6,863,693	45,613		6,909,306
Wastewater System	<u>2,896,018</u>	<u> </u>	<u> </u>	<u>2,896,018</u>
Total Capital Assets Subject to Depreciation	<u>\$ 10,370,931</u>	<u>\$ 45,613</u>	<u>\$ - 0 -</u>	<u>\$ 10,416,544</u>
Less Accumulated Depreciation				
Land Improvements	\$ 198,789	\$ 25,200	\$	\$ 223,989
Buildings	193,010	7,082		200,092
Water System	3,334,832	192,174		3,527,006
Wastewater System	<u>2,035,660</u>	<u>99,581</u>	<u> </u>	<u>2,135,241</u>
Total Accumulated Depreciation	<u>\$ 5,762,291</u>	<u>\$ 324,037</u>	<u>\$ - 0 -</u>	<u>\$ 6,086,328</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 4,608,640</u>	<u>\$ (278,424)</u>	<u>\$ - 0 -</u>	<u>\$ 4,330,216</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 4,856,762</u>	<u>\$ (146,567)</u>	<u>\$ 50,588</u>	<u>\$ 4,659,607</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 6. MAINTENANCE TAX

On August 18, 1973, the voters within the District approved the levy and collection of a maintenance tax. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District’s waterworks and wastewater system. The levy is not limited as to rate or amount. The District levied an ad valorem maintenance tax at the rate of \$0.46 per \$100 of assessed valuation for the 2017 tax year. Based upon the assessed valuation of \$165,457,232 the maintenance tax levy was \$761,303.

The District’s tax calendar is as follows:

- Levy Date - October 1, or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 7. BUILDING, BOILER AND MACHINERY RESERVE

In September 1993, the District decided not to renew its boiler and machinery policy due to the amount of the per-occurrence deductible. In October 1993, the District established a boiler and machinery reserve to pay for emergency repairs that would normally be covered by a boiler and machinery policy. In 2000, the District resumed purchasing a boiler and machinery policy. At the discretion of the Board of Directors, the District will maintain the boiler and machinery reserve. The District will continue to assign \$5,000 annually to the reserve. Transactions for the current year are summarized as follows:

Boiler and Machinery Reserve – June 1, 2017	\$ 107,379
Assigned in the Current Year	<u>5,000</u>
Boiler and Machinery Reserve – May 31, 2018	<u>\$ 112,379</u>

On August 11, 2016, the District established a reserve for the building and boiler and machinery type items in the amount of \$75,000. The District will continue to assign \$5,000 annually to the reserve. Transactions for the current year are summarized as follows:

Building and Boiler and Machinery Reserve – June 1, 2017	\$ 75,000
Assigned in the Current Year	<u>5,000</u>
Building and Boiler and Machinery Reserve – May 31, 2018	<u>\$ 80,000</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 8. WATER SUPPLY AGREEMENT

On April 2, 2001, the District and the City of Houston (the “City”) entered into a water supply contract whereby the City agreed to provide water to the District. The water is delivered through a water line built by the Fairbanks-North Houston Water Consortium. On August 24, 2006, the City accepted the conveyance of the water line and related facilities. The City is responsible for operating, maintaining, repairing and replacing the facilities conveyed to it. As a result of this contract, the District will be able to satisfy the Harris-Galveston Coastal Subsidence District mandate for conversion to surface water. The term of this agreement is 40 years. The charge for water received from the City will be the rates set by the prevailing City ordinances which establish rates for all contract treated water customers. The current rate is \$3.064 per one thousand gallons. The District’s current monthly quantity for which it must pay whether taken or not, is 4.126 million gallons per month. The City adds an additional fee to all usage over the minimum bill, determined by multiplying the excess gallons used (expressed in units of one thousand gallons) times a current rate of \$0.76. The District is authorized to revise its minimum monthly quantity no more than once each calendar year.

During the current fiscal year, the District recorded an expenditure of \$186,624 for water purchased from the City.

NOTE 9. WASTEWATER DISPOSAL CONTRACT

On January 29, 2004, the District entered into a wastewater disposal contract with Harris County Municipal Utility District No. 220 (“District No. 220”). The interconnect facilities will be constructed, paid for, owned and controlled by District No. 220. District No. 220 agreed to pay an initial fee of \$742,180 to purchase wastewater disposal services from the District. The first payment of \$371,090 was received on March 3, 2004. The second payment of \$371,090 was received on May 31, 2005. In 2013, District No. 220 purchased additional capacity. The term of the contract expires 40 years from the effective date of this contract. The agreement was amended on December 8, 2011 and August 26, 2013.

All wastewater delivered by District No. 220 is metered at the point of delivery. The District reads the meter and bills District No. 220 monthly. The monthly charge includes certain direct costs of providing service, a pro-rata share of variable operating and maintenance costs (energy, chemicals, sludge disposal and other goods or services that vary according to the volume treated), and a part of all other operating and maintenance costs. The District began providing services in June of 2005. District No. 220 was billed \$81,263 for services provided during the current fiscal year, of which \$20,383 was receivable at May 31, 2018.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 10. WATER SUPPLY CONTRACT

On February 12, 2004, the District entered into a water supply contract with Harris County Municipal Utility District No. 220 (“District No. 220”). The interconnect facilities will be constructed, paid for, owned and controlled by District No. 220. District No. 220 agreed to pay an initial fee of \$657,820 to purchase water from the District. The first payment of \$328,910 was received on March 3, 2004. The second payment of \$328,910 was received on May 31, 2005. In 2013, District No. 220 purchased additional capacity. This contract expires simultaneously with the District’s contract with the City of Houston. See Note 8. This agreement was amended on December 8, 2011 and August 26, 2013.

All water delivered to District No. 220 is metered at the point of delivery. The District reads the meter and bills District No. 220 monthly. The monthly charge includes a monthly payment calculated in accordance with the same rate and formula used to calculate payment from the District to the City of Houston under the surface water contract, certain direct costs of providing service, a pro-rata share of variable operating and maintenance costs (energy, chemicals and other goods or services that vary according to the volume produced), and a part of all other operating and maintenance costs. The District began providing services in January of 2005. District No. 220 was billed \$162,500 for service provided during the current fiscal year, of which \$36,488 was receivable at May 31, 2018.

NOTE 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

NOTE 12. PENDING BOND APPLICATION

The District submitted a bond application to the Commission requesting approval to issue \$4,220,000 of revenue bonds to finance its share of the costs to rehabilitate the regional wastewater treatment plant and fund bond issuance costs. Approval was pending at year-end.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23

REQUIRED SUPPLEMENTARY INFORMATION

MAY 31, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2018

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 709,500	\$ 757,338	\$ 47,838
Payments in Lieu of Taxes		9,328	9,328
Water Service	631,400	617,266	(14,134)
Wastewater Service	367,900	406,183	38,283
Transfer Fees	2,500	2,035	(465)
Penalty and Interest	14,500	31,871	17,371
Tap Connection and Inspection Fees	2,250	1,575	(675)
Investment Revenues	13,500	33,818	20,318
Miscellaneous Revenues	<u>3,900</u>	<u>55,070</u>	<u>51,170</u>
TOTAL REVENUES	<u>\$ 1,745,450</u>	<u>\$ 1,914,484</u>	<u>\$ 169,034</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 103,400	\$ 81,464	\$ 21,936
Contracted Services	425,000	452,010	(27,010)
Purchased Water Service	199,900	186,624	13,276
Utilities	145,000	150,480	(5,480)
Repairs and Maintenance	366,500	317,455	49,045
Other	223,500	343,170	(119,670)
Capital Outlay		<u>126,882</u>	<u>(126,882)</u>
TOTAL EXPENDITURES	<u>\$ 1,463,300</u>	<u>\$ 1,658,085</u>	<u>\$ (194,785)</u>
NET CHANGE IN FUND BALANCE	\$ 282,150	\$ 256,399	\$ (25,751)
FUND BALANCE - JUNE 1, 2017	<u>2,810,263</u>	<u>2,810,263</u>	<u></u>
FUND BALANCE - MAY 31, 2018	<u>\$ 3,092,413</u>	<u>\$ 3,066,662</u>	<u>\$ (25,751)</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO 23

SUPPLEMENTARY INFORMATION REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MAY 31, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2018

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u> X </u>	Retail Water	<u> X </u>	Wholesale Water	<u> </u>	Drainage
<u> X </u>	Retail Wastewater	<u> X </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> X </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> X </u>	Security
<u> X </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> </u>	Roads
<u> </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order approved April 12, 2018.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels		
WATER:	\$ 24.00	2,000	N	\$ 2.90 \$ 3.80 \$ 4.40 \$ 4.85 \$ 5.00 \$6.30	2,001 to 5,000 5,001 to 9,000 9,001 to 14,000 14,001 to 20,000 20,001 to 27,000 27,001 and up		
WASTEWATER:	\$ 27.00		Y				
SURCHARGE:							
TCEQ Regulatory Assessments			N	0.5% of water and wastewater charges			
City of Houston Water Charge	\$ -0-	2,000	N	\$1.01	2,001 and up		
District employs winter averaging for wastewater usage?					<table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;">Yes</td> <td style="text-align: center; border-bottom: 1px solid black;"><u> X </u> No</td> </tr> </table>	Yes	<u> X </u> No
Yes	<u> X </u> No						

Total charges per 10,000 gallons usage: Water: \$52.30 Wastewater: \$27.00 Surcharge: \$8.48 Total: \$87.78

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2018

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	1,187	1,173	x 1.0	1,173
1"	8	8	x 2.5	20
1½"	4	4	x 5.0	20
2"	3	3	x 8.0	24
3"			x 15.0	
4"	2	2	x 25.0	50
6"			x 50.0	
8"	2	2	x 80.0	160
10"			x 115.0	
Total Water Connections	<u>1,206</u>	<u>1,192</u>		<u>1,447</u>
Total Wastewater Connections	<u>1,191</u>	<u>1,177</u>	x 1.0	<u>1,177</u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Gallons pumped into system:	82,247,000	Water Accountability Ratio: 96% (Gallons billed and sold/Gallons pumped and purchased)
Gallons purchased:	57,877,000	From: City of Houston
Gallons billed to customers:	99,234,000	
Gallons sold:	35,369,000	To: Harris County Municipal Utility District No. 220

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2018

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

Does the District have Operation and Maintenance standby fees? Yes No

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ's in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2018

PROFESSIONAL FEES:	
Auditing	\$ 14,000
Engineering	21,412
Legal	43,743
Delinquent Tax Attorney	<u>2,309</u>
TOTAL PROFESSIONAL FEES	<u>\$ 81,464</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 186,624</u>
CONTRACTED SERVICES:	
Appraisal District	\$ 6,720
Bookkeeping	17,486
Operations and Billing	77,514
Tax Assessor/Collector	<u>20,856</u>
TOTAL CONTRACTED SERVICES	<u>\$ 122,576</u>
UTILITIES:	
Electricity	\$ 148,039
Gas	283
Telephone	<u>2,158</u>
TOTAL UTILITIES	<u>\$ 150,480</u>
REPAIRS AND MAINTENANCE	<u>\$ 317,455</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 13,050
Insurance	13,996
Legal Notices	1,195
Office Building	12,372
Office Supplies and Postage	54,523
Payroll Taxes	1,228
Travel and Meetings	9,271
Other	<u>24,204</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 129,839</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2018

CAPITAL OUTLAY:	
Capitalized Assets	\$ 126,882
Expenditures Not Capitalized	<u> </u>
TOTAL CAPITAL OUTLAY	<u>\$ 126,882</u>
SOLID WASTE DISPOSAL	<u>\$ 194,126</u>
SECURITY	<u>\$ 135,308</u>
OTHER EXPENDITURES:	
Chemicals	\$ 24,018
Laboratory Fees	30,921
Permit Fees	9,727
Regulatory Assessment	3,676
Sludge Hauling	<u>144,989</u>
TOTAL OTHER EXPENDITURES	<u>\$ 213,331</u>
TOTAL EXPENDITURES	<u>\$ 1,658,085</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
INVESTMENTS
MAY 31, 2018

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexPool	XXXX0001	1.7692%	Daily	<u>\$ 3,037,775</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2018**

	Maintenance Taxes	
TAXES RECEIVABLE -		
JUNE 1, 2017	\$ 27,068	
Adjustments to Beginning		
Balance	(897)	\$ 26,171
Original 2017 Tax Levy	\$ 658,966	
Adjustment to 2017 Tax Levy	102,337	761,303
TOTAL TO BE		
ACCOUNTED FOR		\$ 787,474
 TAX COLLECTIONS:		
Prior Years	\$ 11,994	
Current Year	745,344	757,338
 TAXES RECEIVABLE -		
MAY 31, 2018		\$ 30,136
 TAXES RECEIVABLE BY		
YEAR:		
2017		\$ 15,959
2016		5,903
2015		4,118
2014		2,102
2013		1,842
2012		106
2011		106
TOTAL		\$ 30,136

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2018

	2017	2016	2015	2014
PROPERTY VALUATIONS:				
Land	\$ 30,477,517	\$ 26,783,363	\$ 25,563,858	\$ 24,514,058
Improvements	132,138,706	113,917,268	108,615,924	100,057,302
Personal Property	14,476,612	12,507,990	12,692,122	11,160,058
Exemptions	(11,635,603)	(11,306,860)	(10,714,823)	(10,193,491)
TOTAL PROPERTY VALUATIONS	\$ 165,457,232	\$ 141,901,761	\$ 136,157,081	\$ 125,537,927
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Maintenance**	0.46	0.47	0.47	0.48
TOTAL TAX RATES PER \$100 VALUATION	\$ 0.46	\$ 0.47	\$ 0.47	\$ 0.48
ADJUSTED TAX LEVY*	\$ 761,303	\$ 667,063	\$ 640,324	\$ 602,877
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	97.90 %	99.12 %	99.36 %	99.65 %

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

** On August 18, 1973 the voters within the District approved the levy collection of a maintenance tax, the levy was not limited as to rate or amount.

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL SERVICE FUND - FIVE YEARS

	Amount		
	2018	2017*	2016
REVENUES			
Property Taxes	\$ 757,338	\$ 668,397	\$ 633,886
Payments in Lieu of Taxes	9,328	9,100	8,677
Water Service	617,266	715,912	808,580
Wastewater Service	406,183	370,443	342,707
Transfer Fees	2,035	2,560	1,880
Penalty and Interest	31,871	50,404	41,864
Tap Connection and Inspection Fees	1,575	192,045	4,920
Sale of Capacity			
Investment Revenues	33,818	14,122	5,307
Building User Fees	3,925	3,750	5,460
Miscellaneous Revenues	51,145	27,496	17,779
TOTAL REVENUES	\$ 1,914,484	\$ 2,054,229	\$ 1,871,060
EXPENDITURES			
Professional Fees	\$ 81,464	\$ 122,852	\$ 92,355
Contracted Services	452,010	440,093	426,162
Purchased Water Service	186,624	183,880	167,271
Utilities	150,480	150,003	163,572
Repairs and Maintenance	317,455	661,419	226,353
Other	343,170	254,891	239,646
Capital Outlay	126,882	488,100	355,884
TOTAL EXPENDITURES	\$ 1,658,085	\$ 2,301,238	\$ 1,671,243
NET CHANGE IN FUND BALANCE	\$ 256,399	\$ (247,009)	\$ 199,817
BEGINNING FUND BALANCE	2,810,263	3,057,272	2,857,455
ENDING FUND BALANCE	\$ 3,066,662	\$ 2,810,263	\$ 3,057,272
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,192	1,198	1,179
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,177	1,226	1,170

* Repairs and Maintenance include approximately \$416,000 for the purchase and installation of new smart meters.

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017*	2016	2015	2014
\$ 598,806	\$ 573,374	39.5 %	32.5 %	33.8 %	37.0 %	32.9 %
7,683	6,845	0.5	0.4	0.5	0.5	0.4
614,379	727,545	32.2	34.9	43.2	38.1	41.7
332,936	336,083	21.2	18.0	18.3	20.6	19.2
2,315	3,135	0.1	0.1	0.1	0.1	0.2
42,805	39,873	1.7	2.5	2.2	2.7	2.3
		0.1	9.3	0.3		
	47,883					2.7
1,143	1,251	1.8	0.7	0.3	0.1	0.1
3,750	3,974	0.2	0.2	0.3	0.2	0.2
10,359	4,632	2.7	1.3	1.0	0.7	0.3
<u>\$ 1,614,176</u>	<u>\$ 1,744,595</u>	<u>100.0 %</u>	<u>99.9 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 132,444	\$ 136,422	4.3 %	6.0 %	4.9 %	8.2 %	7.8 %
416,316	412,681	23.6	21.4	22.8	25.8	23.7
155,517	159,933	9.7	9.0	8.9	9.6	9.2
146,614	158,900	7.9	7.3	8.7	9.1	9.1
286,069	227,274	16.6	32.2	12.1	17.7	13.0
232,635	215,630	17.9	12.4	12.8	14.4	12.4
48,210	692,165	6.6	23.8	19.0	3.0	39.7
<u>\$ 1,417,805</u>	<u>\$ 2,003,005</u>	<u>86.6 %</u>	<u>112.1 %</u>	<u>89.2 %</u>	<u>87.8 %</u>	<u>114.9 %</u>
\$ 196,371	\$ (258,410)	13.4 %	(12.2) %	10.8 %	12.2 %	(14.9) %
2,661,084	2,919,494					
<u>\$ 2,857,455</u>	<u>\$ 2,661,084</u>					
<u>1,190</u>	<u>1,179</u>					
<u>1,184</u>	<u>1,173</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2018

District Mailing Address - Harris County Municipal Utility District No. 23
c/o Michael A. Cole, P.C.
5120 Baynard Lane
Houston, TX 77006

District Telephone Number - (713) 880-3800

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended May 31, 2018	Expense Reimbursements for the year ended May 31, 2018	Title
Jim Haney	05/18 05/22 (Elected)	\$ 5,250 (1)	\$ 1,466	President
Christy Shepard	05/18 05/22 (Elected)	\$ 2,250	\$ 30	Vice President
Oscar Dominguez	05/16 05/20 (Elected)	\$ 2,550	\$ 1,047	Secretary
Terry Delasalle	05/16 05/20 (Elected)	\$ 2,850	\$ 2,649	Treasurer
Jeffery Blackwell	05/18 05/22 (Elected)	\$ 3,150	\$ 1,679	Assistant Secretary/Treasurer

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054
May 10, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 8, 2004. Fees of Office are the amounts paid to a Director during the District's current fiscal year.

(1) Includes \$3,000 for services as District community building coordinator.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2018

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended May 31, 2018</u>	<u>Title</u>
Michael A. Cole, P.C.	05/03/83	\$ 43,743	General Counsel
McCall Gibson Swedlund Barfoot PLLC	05/14/87	\$ 14,000	Auditor
ETI Bookkeeping Services	1979	\$ 17,926	Bookkeeper
Sherrington-Humble, LLC	11/01/02	\$ 90,302	Engineer
Blitch Associates, Inc.	03/08/18	\$ -0-	Financial Advisor
Kenneth R. Byrd	09/01/99	\$ -0-	Investment Officer
TNG Utility Corp.	03/01/10	\$ 607,702	Operator
Perdue, Brandon, Fielder, Collins & Mott, LLP	03/13/14	\$ 2,309	Delinquent Tax Attorney
Equi-Tax, Inc.	01/01/79	\$ 22,272	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B—Selected Provisions of the Bond Resolution

SECTION 2.01. DEFINITIONS. The definitions of the terms and phrases contained in this Resolution (hereinafter defined), shall apply with equal force herein and are hereby adopted as a part of this Resolution (except in Article Five hereof) and in any resolution amendment or supplement hereto; provided, however, that where such definitions are inconsistent or in conflict with the terms and provisions of this Resolution, the definitions contained in this Resolution shall govern:

"Additional Bonds" shall mean the additional bonds permissible to be issued by the District pursuant to this Resolution which it may issue from time to time in the future.

"Authorized Investments" shall mean all direct obligations of the United States or one of its agencies, the State of Texas, or any county, city, school district, or other political subdivision of the State and 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 for under the Public Funds Investment Act, Chapter 2256, Texas Government Code.

"Board of Directors" or "Board" shall mean the governing body of the District.

"Bond" or "Bonds" shall mean any Bond or Bonds as the case may be, of the issue of \$4,220,000 Revenue Bonds, Series 2018, dated November 1, 2018, authorized, issued and delivered pursuant to this Resolution.

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

"Closing Date" or "Issuance Date" shall mean the date on which the Bonds are initially authenticated and delivered to the Purchaser against payment therefor.

"Construction Fund" or "2018 Construction Fund" shall mean the District's construction fund which is created and established in Section 6.03 of this Resolution and into which a portion of the proceeds from the sale of the Bonds is to be deposited and used in accordance with Section 7.04 of this Resolution.

"Debt Service Fund" or the "2018 Revenue Bonds Interest and Sinking Fund" shall mean the District's debt service fund which is created and established in Sections 6.01, 6.03 and 5.02 of this Resolution.

"District" shall mean Harris County Municipal Utility District No. 23, Harris County, Texas, and any other public agency succeeding to the powers, rights, privileges and functions of the District and, when appropriate, the Board of Directors of the District.

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

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

"Fiscal Year" shall mean the twelve-month fiscal year period of the District, which is currently the twelve-month period beginning June 1 of each year and ending on May 31 of the following year, but which may be changed from time to time by the Board.

"Holder," "Holders," or "Owner" when used with respect to any Bond shall mean the Person or Persons in whose name such Bond is registered on the Register.

"Initial Bonds" shall mean the Bonds authorized to be issued and initially delivered hereunder upon which the manually executed certificate of registration of the Comptroller of Public Accounts of the State of Texas or his duly authorized deputy, substantially in the form prescribed in Section 5.03 hereof, has been placed.

“Initial Date” shall mean November 1, 2018, the date of the Bonds.

"Initial Purchaser" shall mean the Person purchasing the Bonds as stated in Section 13.01 hereof.

“Interest Payment Date” shall mean the date on which interest on the outstanding Bonds is due and payable and shall be each March 1 and September 1 beginning March 1, 2019.

“Maturity Date” shall mean any date on which the principal of any then Outstanding Bond becomes due and payable as provided in Section 3.03 hereof.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Net System Revenues” shall mean all Gross Revenues of the District Water and Sewer Systems, including interest earning thereon, less Maintenance and Operation Expenses of the System

“NRMSIR” means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"Outstanding Bonds" shall mean the remaining outstanding portions of the District's Bonds, which may be issued hereafter.

“Owner” or “Registered Owner” means any person who shall be the registered owner of any Outstanding Bond.

“Paying Agent” shall mean the agency maintained from time to time by the District for the purpose of making payment on behalf of the District of the principal of and the interest on the Bonds, as provided in Section 12.06 of this Resolution.

"Person" shall mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“Pledged Revenues” shall mean the Net Revenues of the System, and any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source whether pursuant to an agreement or otherwise, which at the option of the District, hereafter may be pledged to the payment of the Bonds or the Additional Bonds.

"Predecessor Bonds" shall mean, with respect to any particular Bond, every previous Bond evidencing all or a portion of the same obligation as that evidenced by such particular Bond, and, for the purposes of this definition, any Bond registered and delivered pursuant to Section 3.09 hereof shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Bond in lieu of which such Bond was delivered.

"Record Date" shall mean, with respect to an Interest Payment Date of March 1, the preceding February 15, and with respect to an Interest Payment Date of September 1, the preceding August 15, whether or not such dates are business days.

"Redemption Date" when used with respect to any Bond to be redeemed means the date fixed for such redemption pursuant to the terms of this Resolution.

"Redemption Price" when used with respect to any Bond to be redeemed means the price at which it is to be redeemed pursuant to the terms of this Resolution, excluding installments of interest whose Stated Maturity is on or before the Redemption Date.

"Refunding Bonds" shall mean the bonds which the District reserves the right to issue in Section 9.03 of this Resolution.

"Register" shall mean the registry system maintained on behalf of the District by a Registrar designated by the District for such purpose in which are maintained the names and addresses of Holders and the principal amounts and Maturity Amount of the Bonds registered in the name of each Holder.

"Registrar" shall mean the bank, trust company, financial institution or other entity as may hereafter be designated as such from time to time by the District to act as Registrar for the Bonds, as provided in Section 12.05 of this Resolution.

"Resolution" shall mean this Resolution and all amendments hereof and supplements hereto.

"2018 Revenue Bonds Reserve Fund" shall mean the fund established by Section 6.03 of the Resolution.

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

"SEC" means the United States Security and Exchange Commission.

"SID" means The Municipal Advisory Council of Texas, which has been designated by the State of Texas as determined by the SEC or its staff to be, a state information depository within the meaning of the Rule.

"System" shall mean all properties, facilities, improvements, equipment, interests and rights constituting the waterworks system and wastewater treatment system of the District, including all future extensions, replacements, betterment, additions and improvements to the water and sewer Systems.

"System Fund" shall mean the fund into which revenues derived from the operation of the District's waterworks and sanitary sewer system are initially deposited.

SECTION 2.02. INTERPRETATIONS. The titles and headings of the articles and sections of this Resolution have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Resolution and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the taxes levied in payment thereof.

SECTION 6.01. PLEDGE AND SOURCE OF PAYMENT. The District hereby covenants and agrees that all Net System Revenues, shall be deposited and paid into the special funds established in connection with the issuance of the Bonds, and shall be applied in the manner hereinafter set forth, in order to provide for the payment of principal, interest and any redemption premium of the Bonds and Additional Bonds and all expenses of paying same, and to provide for the payment of all Maintenance and Operation Expenses. The Bonds shall constitute special obligations of the District that shall be payable solely from, and shall be equally and ratably secured by a first lien on, the Net System Revenues, as collected and received by the District, from the operation and ownership of the System, which Net System Revenues shall, in the manner herein provided, be set aside for and pledged to the payment of the Bonds and Additional Bonds in the Interest and Sinking Fund and Reserve Fund as hereinafter provided, and the Bonds and Additional Bonds shall be in all respects on a parity with and of equal dignity with one another. The owners of the Bonds and Additional Bonds shall never have the right to demand payment of either the principal of or interest on the Bonds out of any funds raised or to be raised by taxation.

SECTION 6.02. RATES AND CHARGES. So long as any Bonds remain outstanding, the District shall fix, charge and collect rates and charges for the use and services of the System, which are calculated to be fully sufficient to produce Gross System Revenues in an amount necessary to pay all maintenance, operation and administrative expenses; meet the debt service requirements of all outstanding bonds; and maintain all funds established and required by this Resolution.

The District will not grant or permit any free service from the System except for buildings and institutions operated by the District.

SECTION 6.03. SPECIAL FUNDS. The following special Funds are hereby established and shall be maintained and accounted for as hereinafter provided, so long as any of the Bonds remain outstanding:

(a) SERIES 2018 HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23 SYSTEM CONSTRUCTION FUND (the “2018 System Construction Fund” or “2018 Construction Fund”);

(b) HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23 SYSTEM FUND (the “System Fund”);

(c) SERIES 2018 HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23 SYSTEM REVENUE BONDS INTEREST AND SINKING FUND (the “2018 Revenue Bonds Interest and Sinking Fund”); and

(d) SERIES 2018 HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23 REVENUE BONDS RESERVE FUND (the “2018 Revenue Bonds Reserve Fund”).

The 2018 System Construction Fund and the System Fund shall be maintained at an official depository of the District separate and apart from all other funds and accounts of the District. The 2018 Revenue Bonds Interest and Sinking Fund and the 2018 Revenue Bonds Reserve Fund shall be maintained at an official depository of the District separate and apart from all other funds and accounts of the District and shall constitute trust funds which shall be held in trust for the benefit of the Owners of the Bonds and the proceeds of which (except for interest income, which shall be transferred to the System Fund) shall be and are hereby pledged to the payment of the Bonds. All of the Funds named above shall be used solely as provided in this Resolution so long as any Bonds remain outstanding.

SECTION 6.04. FLOW OF FUNDS. All Revenues, including the Gross Revenues of the System, shall be deposited as collected into the System Fund. Money from time to time on deposit to the credit of the System Fund shall be applied as follows in the following order of priority:

(a) First, to pay Maintenance and Operation Expenses of the District’s System;

(b) Second, to make all deposits into the 2018 Revenue Bonds Interest and Sinking Fund required by this Resolution and any resolution authorizing the issuance of Outstanding and Additional Bonds; and

(c) Third, to make all deposits into the 2018 Revenue Bonds Reserve Fund required by the Resolution authorizing the Bonds and any resolutions authorizing the issuance of Additional Bonds; and

(d) Fourth, for any lawful purpose.

Whenever the total amounts on deposit to the credit of the 2018 Revenue Bonds Interest and Sinking Fund and the 2018 Revenue Bonds Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all outstanding Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further payments need be made into the 2018 Revenue Bonds Interest and Sinking Fund or the 2018 Revenue Bonds Reserve Fund, and such Bonds shall not be regarded as being outstanding except for the purpose of being paid with the money on deposit in such Funds.

SECTION 6.05. 2018 REVENUE BONDS INTEREST AND SINKING FUND. On or before the last business day of each month so long as any Bonds remain outstanding, there shall be transferred into the 2018 Revenue Bonds Interest and Sinking Fund from the System Fund the following amounts:

(a) such amounts, in approximately equal monthly installments, as will be sufficient to accumulate the amount required to pay the interest scheduled to become due on the Bonds on the next interest payment date; and

(b) such amounts, in approximately equal monthly installments, as will be sufficient to accumulate the amount required to pay the next maturing principal of the Bonds, including the principal amounts of, and any redemption premiums on, any Bonds payable as a result of the exercise or operation of any optional or mandatory redemption provisions contained in any resolution authorizing the issuance of Bonds.

SECTION 6.06. 2018 REVENUE BONDS RESERVE FUND. Unless the 2018 Revenue Bonds Reserve Fund is fully funded, on or before the last business day of each month so long as any Bonds remain outstanding, after making the transfers into the 2018 Revenue Bonds Interest and Sinking Fund required in the preceding section, there shall be transferred into the 2018 Revenue Bonds Reserve Fund from the System Fund each month funds in amount at least equal to one-sixtieth (1/60th) of the average annual principal and interest requirements on the Bonds until the 2018 Revenue Bonds Reserve Fund has been fully funded. After such amount has accumulated in the 2018 Revenue Bonds Reserve Fund and so long thereafter as such Fund contains such amount, no further deposits shall be required to be made into the 2018 Revenue Bonds Reserve Fund, and any excess amounts may be transferred to the System Fund. But if and whenever the balance in the 2018 Revenue Bonds 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 (1/60th) of the average annual principal and interest requirements on the Bonds until the 2018 Revenue Bonds Reserve Fund has been restored to such amount. The 2018 Revenue Bonds Reserve Fund shall be used to pay the principal of and interest on the Bonds at any time when there is not sufficient money available in the 2018 Revenue Bonds Interest and Sinking Fund for such purpose and it may be used finally to pay and retire the last Bonds to mature or be redeemed.

SECTION 6.07. OPERATION AND MAINTENANCE EXPENSES. On or before the last business day of each month so long as any Bonds remain outstanding, after paying the Operation and Maintenance Expenses of the System, any monies remaining in the System Fund shall be used to make the transfers to the 2018 Revenue Bonds Interest and Sinking Fund and the 2018 Revenue Bonds Reserve Fund required in the preceding sections. Any monies remaining after such payments may be used for any lawful purpose.

SECTION 6.08. DEFICIENCIES IN FUNDS. If any month there shall not be deposited into any Fund maintained pursuant to this Article the full amounts required herein, amounts equivalent to such deficiency shall be set apart and paid into such Fund or Funds from the first available and unallocated money in the System Fund, and such payment shall be in addition to the amounts otherwise required to be paid into such Funds during the succeeding month or months. To the extent necessary, the rates and charges for the System shall be increased to make up for any such deficiencies.

SECTION 6.09. INVESTMENT OF FUNDS; TRANSFER OF INVESTMENT INCOME. Money in the System Fund, the 2018 Revenue Bonds Interest and Sinking Fund and the 2018 Revenue Bonds Reserve Fund may, at the option of the District, be invested as provided in the Texas Public Funds Investment Act, Section 2256.001 *et. seq.*, Texas Government Code, and the Public Funds Collateral Act, Chapter 2257, Texas Government Code; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investments with any national bank) that the money required to be expended from any Fund will be available at the proper time or times, and provided further that in no event shall such deposits or investments of money in the 2018 Revenue Bonds Reserve Fund mature later than the final maturity date of the Bonds. All such investments shall be promptly sold when necessary to prevent any default in connection with the Bonds. All interest and income derived from such deposits and investments shall be transferred or credited as received to the System Fund.

SECTION 6.10. SECURITY FOR UNINVESTED FUNDS. So long as any Bonds remain outstanding, all uninvested money on deposit in, or credited to, the System Construction Fund, the System Fund, the 2018 Revenue Bonds Interest and Sinking Fund and the 2018 Revenue Bonds Reserve Fund shall be secured by the pledge of security, as provided by Texas Public Funds Investment Act, Section 2256.001 *et. seq.*, Texas Government Code, in a principal amount not less than the amount of such uninvested funds.

SECTION 7.01. ADDITIONAL BONDS. The District reserves the right to issue one or more series of Additional Bonds for any lawful purpose and payable from any legal source, provided however, no Additional Bonds may be issued unless:

(a) The Additional Bonds mature on, and interest is payable on, the same days of the year as the Bonds;

(b) The 2018 Revenue Bonds Interest and Sinking Fund and the 2018 Revenue Bonds Reserve Fund each contains the amount of money then required to be on deposit therein;

(c) A certificate is executed by the Secretary of the District to the effect that no default exists in connection with any of the covenants or requirements of the resolutions authorizing the issuance of all then outstanding Bonds and that the 2018 Revenue Bonds Interest and Sinking Fund and the 2018 Revenue Bonds Reserve Fund each contains the amount then required to be on deposit therein;

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

(e) Additional revenue obligations may only be incurred if net system revenues are at least 1.25 times the average annual debt service requirements after giving effect to the Additional obligations when net revenues are (a) determined from the last completed fiscal year or a 12 consecutive calendar month period ending not more than ninety (90) days preceding the adoption of the additional obligations as certified by a certified public accountant; or (b) the District certifies that it is expected to continue to meet or exceed the net system revenue test with a minimum coverage of 1.25 times the average annual debt service requirement. An authorized representative of the District must provide the calculations, identifying reasonable assumptions; and

(f) Provision is made in the resolution authorizing the Additional Bonds then proposed to be issued for (i) additional payments into the 2018 Revenue Bonds Interest and Sinking Fund sufficient to provide for any increased principal and interest requirements on the Bonds resulting from the issuance of the Additional Bonds and (ii) payments into the 2018 Revenue Bonds Reserve Fund so that such Fund will, in not later than sixty (60) months from the date of issuance of such Additional Bonds, contains a balance not less than the average annual principal and interest requirements on all Bonds that will be outstanding after the issuance of such series of Additional Bonds.

For purposes of Section 7.01, the term "Net System Revenues of the System" shall mean all of the Net System Revenues of the System, except that in calculating Net Earnings there shall not be deducted as Maintenance and Operation Expenses any charge, disbursement or expenditure for extensions, repairs or otherwise which, under standard accounting practice, constitutes a capital expenditure.

SECTION 7.02. SECURITY OF FUNDS. Any cash balance in any fund, to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund maintained and administered by the Federal Deposit Insurance Corporation, or a successor insurance fund, shall be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of municipal utility districts, having an aggregate market value, exclusive of accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged.

SECTION 7.10. PLEDGE AND ENCUMBRANCE OF NET SYSTEM REVENUES. The District covenants and represents that it has the lawful power to create a lien on and to pledge the Net System Revenues to secure the payment of the Bonds and has lawfully exercised such power under the Constitution and laws of the State of Texas. The District further covenants and represents that, other than to the payment of the Bonds, the Net System Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the District, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing the payment of the Bonds.

SECTION 10.01. REMEDIES IN EVENT OF DEFAULT. In addition to all of the rights and remedies provided by the laws of the State of Texas, the District further covenants and agrees that in the event of default in payment of principal 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 2018 Revenue Bonds Interest and Sinking Fund or the 2018 Revenue Bonds Reserve Fund, or defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Resolution, the Holders shall be entitled to seek 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 this Resolution. Any delay or omission in the exercise of any right or power accruing upon any default shall not impair any such right or power nor 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.

SECTION 10.02. RESOLUTION IS CONTRACT. In consideration of the purchase and acceptance by the Holders of the Bonds authorized to be issued hereunder, the provisions of this Resolution shall be deemed to be and shall constitute a contract between the District and the Holders, and the covenants and agreements herein set forth to be performed on behalf of the District shall be for the equal benefit, protection and security of each of the Holders. Each of the Bonds, regardless of the time or times of their issue, authentication, delivery or maturity, shall be of equal rank, without preference, priority or distinction of any Bond over any other, except as expressly provided herein.

APPENDIX C–Specimen Municipal Bond Insurance Policy



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN