

OFFICIAL STATEMENT DATED FEBRUARY 11, 2019

IN THE OPINION OF THE MULLER LAW GROUP PLLC, BOND COUNSEL, BASED UPON AN ANALYSIS OF EXSISTING 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 RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE "TAX MATTERS" HEREIN.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

NEW ISSUE - Book-Entry-Only

Insured Rating: S&P - "AA/Stable"
See "MUNICIPAL BOND RATING" and
"MUNICIPAL BOND INSURANCE" herein

\$3,000,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 481
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX BONDS, SERIES 2019

Dated: March 1, 2019

Due: September 1, as shown below

Principal of the Bonds will be payable at stated maturity or redemption upon presentation of the Bonds at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent/Registrar", "Paying Agent" or "Registrar") in Dallas, Texas. Interest on the Bonds will accrue from March 1, 2019, and is payable on September 1, 2019 (six months of interest) and on each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Bonds will be issued only in fully registered form. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "BOOK-ENTRY-ONLY SYSTEM."



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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS, AND CUSIPS

Due Sept. 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number 41453R (b)	Due Sept. 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number 41453R (b)
2020	\$ 65,000	5.500%	1.900%	CU8	2029	\$ 95,000 (c)	3.000%	3.000%	DD5
2021	65,000	5.500%	2.000%	CV6	2030	100,000 (c)	3.000%	3.100%	DE3
2022	70,000	5.500%	2.100%	CW4	2031	105,000 (c)	3.000%	3.200%	DF0
2023	75,000	5.500%	2.200%	CX2	2032	115,000 (c)	3.000%	3.300%	DG8
2024	75,000	5.500%	2.350%	CY0	2033	120,000 (c)	3.125%	3.400%	DH6
2025	80,000	5.250%	2.500%	CZ7	2034	125,000 (c)	3.250%	3.500%	DJ2
2026	85,000 (c)	3.000%	2.650%	DA1	2035	130,000 (c)	3.375%	3.550%	DK9
2027	90,000 (c)	3.000%	2.800%	DB9	2036	135,000 (c)	3.375%	3.600%	DL7
2028	95,000 (c)	3.000%	2.900%	DC7					

\$295,000 Term Bonds due September 1, 2038 (c), 41453R DN3 (b), 3.500% Interest Rate, 3.700% Yield (a)
\$325,000 Term Bonds due September 1, 2040 (c), 41453R DQ6 (b), 3.500% Interest Rate, 3.750% Yield (a)
\$360,000 Term Bonds due September 1, 2042 (c), 41453R DS2 (b), 3.625% Interest Rate, 3.800% Yield (a)
\$395,000 Term Bonds due September 1, 2044 (c), 41453R DU7 (b), 3.625% Interest Rate, 3.830% Yield (a)

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Initial Purchaser (as herein defined) for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest from March 1, 2019, is to be added to the price.
- (b) CUSIP numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (c) Bonds maturing on and after September 1, 2026, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as described herein. See "THE BONDS-Redemption Provisions."

The Bonds, when issued, will constitute valid and legally binding obligations of Harris County Municipal Utility District No. 481 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Webster or any entity other than the District. The Bonds are subject to special investment risks described herein. See "RISK FACTORS."

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by The Muller Law Group, PLLC, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about March 12, 2019.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement is not to be used in 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, resolutions, 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 Muller Law Group, PLLC, 202 Century Square, Sugar Land, Texas 77478, upon payment of duplication costs.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “MUNICIPAL BOND INSURANCE” and “APPENDIX B – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

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 affairs of the District or other matters described herein since the date hereof. However, 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 Initial Purchaser and thereafter only as specified in “PREPARATION OF OFFICIAL STATEMENT - Updating the Official Statement.”

OFFICIAL STATEMENT SUMMARY

The following information is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement.

THE FINANCING

The Issuer Harris County Municipal Utility District No. 481 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”

The Issue \$3,000,000 Unlimited Tax Bonds, Series 2019 (the “Bonds”) are issued pursuant to a resolution (the “Bond Resolution”) of the District’s Board of Directors. The Bonds will be issued as fully registered bonds maturing serially on September 1 in each of the years 2020 through 2036, both inclusive, and as term bonds on September 1 in the years 2038, 2040, 2042, and 2044 (the “Term Bonds”) in the principal amounts and accruing interest at the rates shown on the cover hereof. Interest on the Bonds accrues from March 1, 2019 and is payable on September 1, 2019 (six months of interest), and on each March 1 and September 1 thereafter until the earlier of maturity or prior redemption.

The Bonds maturing on and after September 1, 2026, are subject to redemption, in whole or from time to time in part, at the option of the District, prior to their maturity dates, on September 1, 2025, or on any date thereafter. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. See “THE BONDS.”

Source of Payment The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “TAX PROCEDURES.” The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Webster or any other political subdivision or agency other than the District. See “THE BONDS-Source of and Security for Payment.”

Payment Record The District has previously issued three series of unlimited tax bonds, \$10,790,000 of which will be outstanding as of January 14, 2019 (the “Outstanding Bonds”). See “FINANCIAL STATEMENT—Outstanding Bonds.” The District has never defaulted in the payment of principal and interest on its previously issued bonds.

Use of Proceeds Proceeds from the sale of the Bonds will be used to pay for items shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS,” including developer interest, and to pay certain other costs and fees related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Qualified Tax-Exempt Obligations In the Bond Resolution, the District has designated the Bonds as “qualified tax-exempt obligations.” See “QUALIFIED TAX-EXEMPT OBLIGATIONS.”

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 their municipal bond ratings of “AA” to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (“AGM”). The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. See “MUNICIPAL BOND INSURANCE.” An explanation of the significance of such rating may be obtained from S&P. This rating reflects only the views of S&P, and the District makes no representation as to the

appropriateness of such rating. Further, there is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely, if in the sole judgment of S&P circumstances so warrant. Any such downward revisions or withdrawal of the rating may have an adverse effect on the trading value and the market price of the Bonds. See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE.”

Bond Counsel..... The Muller Law Group, PLLC, Sugar Land, Texas.

Disclosure Counsel..... McCall, Parkhurst & Horton L.L.P., Houston, Texas.

Financial Advisor Post Oak Municipal Advisors LLC, Houston, Texas.

Engineer LJA Engineering, Inc., Houston, Texas.

THE DISTRICT

Description The District was created by order of the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”), on May 1, 2007, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District includes approximately 332 acres of land. The District is located approximately 21 miles southeast of the central downtown business district of the City of Houston and entirely within the corporate limits of the City of Webster (the “City”). The District is bounded on the west by State Highway 3, on the north by NASA Parkway, and on the south by Clear Creek. Egret Bay Boulevard lies approximately 1,500 feet east of the District. See “THE DISTRICT” and “AERIAL PHOTOGRAPH” herein.

Status of Development..... The District is being developed as Edgewater, a predominantly single-family and multifamily residential community. Development in the District currently includes 289 single-family residential lots and 40 townhome lots on approximately 85 acres. As of January 14, 2019, there were 225 completed single-family residential homes (all occupied), 2 model homes, 40 completed townhomes (all occupied), 32 single-family homes under construction (22 sold and 10 owned by a builder), 30 vacant developed single family lots available for home construction, and no vacant developed townhome lots available for home construction. Homes in the District have sold at prices ranging from approximately \$275,000 to \$375,000 for single family homes and approximately \$250,000 to \$275,000 for townhomes. Coventry Homes and Westin Homes are currently building single-family homes in the District.

In addition to the development described above, the District contains a 414-unit apartment complex on approximately 27 acres. According to the apartment complex management, the apartments are 97% occupied. The Developer has constructed a recreation area, which includes a pavilion, playground and walking trails, on approximately 7 acres in the District.

Additionally, the District contains approximately 104 acres of developable land which are not provided with underground water, sanitary sewer and drainage facilities and approximately 96 acres of land contained in drainage easements, rights-of-way, open space, and District facilities. See “THE DISTRICT—Status of Development.”

Hurricane Harvey..... The District is located approximately one and one-half mile from Clear Lake, which eventually outfalls into Galveston Bay. Land located in this area could be susceptible to storm surge caused by a hurricane. 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 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 26, 2017, brought historic levels of rainfall during the successive four days. According to the City, there was no interruption of water and sewer service as a result of Hurricane Harvey. To the knowledge of the District, no residential or multifamily, properties within the District experienced structural flooding or other damage as a result of Hurricane Harvey. See “RISK FACTORS – Recent Extreme Weather Events; Hurricane Harvey.”

The Developer Approximately 85 acres in Edgewater has been developed by Cherokee Webster Development, L.P., a Delaware limited partnership (the “Developer”), whose general partner is Webster 538, L.P., a Texas limited partnership. The Developer was formed for the sole purpose of owning and developing the 332 acres of land in the District. The development is being managed by an affiliate of The Johnson Development Corp. See “THE DEVELOPER.”

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 FOR A DISCUSSION OF INVESTMENT RISKS, INCLUDING PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”

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SELECTED FINANCIAL INFORMATION

2018 Certified Taxable Assessed Valuation.....	\$130,234,131 (a)
Estimated Taxable Assessed Valuation as of January 1, 2019.....	\$148,638,325 (b)
 Gross Debt Outstanding (after issuance of the Bonds).....	 \$13,790,000
Estimated Overlapping Debt.....	6,414,390 (c)
Gross Debt and Estimated Overlapping Debt.....	<u>\$20,204,390</u>
 Ratios of Gross Debt to:	
2018 Certified Taxable Assessed Valuation.....	10.59%
Estimated Taxable Assessed Valuation as of January 1, 2019.....	9.28%
 Ratios of Gross Debt and Estimated Overlapping Debt to:	
2018 Certified Taxable Assessed Valuation.....	15.51%
Estimated Taxable Assessed Valuation as of January 1, 2019.....	13.59%
 Fund Balances Available as of February 11, 2019:	
Operating Fund.....	\$847,791 (d)
Road Capital Projects Fund.....	\$19,393
WS&D Capital Projects Fund.....	\$224,903
Road Debt Service Fund.....	\$665,522 (e)
WS&D Debt Service Fund.....	\$214,741 (e)
 2018 Tax Rate:	
Debt Service.....	\$0.90
Maintenance and Operations.....	<u>0.26</u>
Total.....	\$1.16
 Average Annual Debt Service Requirements (2019-2044) of the Bonds and the Outstanding Bonds ("Average Requirement").....	
	\$767,101
 Taxrate required to pay Average Requirement based upon:	
2018 Certified Taxable Assessed Valuation at a 95% collection rate.....	\$0.63 /\$100 A.V.
Estimated Taxable Assessed Valuation as of January 1, 2019 at a 95% collection rate.....	\$0.55 /\$100 A.V.
 Maximum Annual Debt Service Requirements (2022) of the Bonds and the Outstanding Bonds ("Maximum Requirement").....	
	\$974,609
 Taxrate required to pay Maximum Requirement based upon:	
2018 Certified Taxable Assessed Valuation at a 95% collection rate.....	\$0.79 /\$100 A.V.
Estimated Taxable Assessed Valuation as of January 1, 2019 at a 95% collection rate.....	\$0.70 /\$100 A.V.

(a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."

(b) As estimated by the Appraisal District as of January 1, 2019 for informational purposes only. The 2018 Certified Taxable Assessed Valuation established by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2018 to January 1, 2019. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year.

(c) See "ESTIMATED OVERLAPPING DEBT STATEMENT."

(d) The TCEQ approved an application to reimburse the Developer for eligible WS&D costs. The Operating Fund balance reflects the reduction of \$1,510,470 for such reimbursement made on February 11, 2019.

(e) Neither Texas law nor the Bond Resolution requires the District to maintain any minimum balance in the Debt Service Funds. Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue is allocated to bonds sold for road facilities (the "Road Bonds"), and a portion is allocated to bonds sold for water, sewer and drainage facilities including the Bonds (the "Water, Sewer and Drainage Bonds"). See "FINANCIAL STATEMENT (UNAUDITED)—Outstanding Bonds." The Road Debt Service Fund is not pledged to the Water, Sewer and Drainage Bonds and the Water, Sewer and Drainage Debt Service Fund is not pledged to the Road Bonds.

OFFICIAL STATEMENT

\$3,000,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 481

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

UNLIMITED TAX BONDS, SERIES 2019

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 481 (the “District”) of its \$3,000,000 Unlimited Tax Bonds, Series 2019 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas regarding the issuance of bonds by political subdivisions of the State of Texas, the City of Webster Consent Resolution, an election held in the District, a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”), and an order of the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”).

This Official Statement includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District and the developer of land within the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from the District upon payment of the costs of duplication therefor.

THE BONDS

General

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. The Bond Resolution authorizes the issuance and sale of the Bonds and prescribes the terms, conditions, and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds will be dated and accrue interest from March 1, 2019, which interest is payable on September 1, 2019 (six months of interest) and on each March 1 and September 1 thereafter, until the earlier of maturity or prior redemption. The Bonds mature on September 1 in the amounts and years and bear interest at the rates shown on the cover page of this Official Statement. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

The Bonds will be issued in fully registered form in denominations of \$5,000 or integral multiples thereof.

Authority for Issuance

At a bond election held within the District on November 6, 2007, the voters of the District authorized the issuance of a total of \$82,500,000 principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities. The Bonds are being issued pursuant to such authorization and after issuance of the Bonds, \$70,615,000 principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities will remain authorized but unissued. See “Issuance of Additional Debt” below and “USE AND DISTRIBUTION OF BOND PROCEEDS.”

The Bonds are issued by the District pursuant to the terms and provisions of the Bond Resolution, an order of the “Commission”, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas regarding the issuance of bonds by political subdivisions of the State of Texas, and the City of Webster Consent Resolution.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

Source of and Security for Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants in the Bond Resolution to levy a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District sufficient to pay the principal of and interest on the Bonds, the Outstanding Bonds, and any future bonds payable in whole or in part from taxes, with full allowance being made for delinquencies and costs of collection.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Harris County, the City of Webster or any entity other than the District.

Funds

In the Bond Resolution, the Water, Sewer and Drainage Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

The District also maintains a Road Debt Service Fund that is not pledged to the Bonds. Funds in the Road Debt Service Fund are not available to pay principal and interest on the Bonds.

Accrued interest on the Bonds shall be deposited into the Water, Sewer and Drainage Debt Service Fund upon receipt. The remaining proceeds from sale of the Bonds, including interest earnings thereon, shall be deposited into the Water, Sewer and Drainage Capital Projects Fund, to pay the costs of acquiring or constructing District water, sanitary sewer, and drainage facilities and to pay the costs of issuing the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a more complete description of the use of Bond proceeds.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas. Interest on each Bond shall be payable by check or draft payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owners as shown on the Register on the fifteenth (15th) day (whether or not a business day) of the month prior to each interest payment date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed to by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

No Arbitrage

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond Resolution that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds, and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

Record Date

The record date for payment of the interest on any regularly scheduled Interest Payment Date is defined as the 15th day of the month (whether or not a business day) preceding such Interest Payment Date.

Redemption Provisions

Mandatory Redemption: The Bonds maturing on September 1 in the years 2038, 2040, 2042, and 2044, (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced, at the option of the District, by the principal amount as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below):

\$295,000 Term Bonds Due September 1, 2038		\$325,000 Term Bonds Due September 1, 2040	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2037	\$ 145,000	2039	\$ 160,000
2038 (maturity)	150,000	2040 (maturity)	165,000

\$360,000 Term Bonds Due September 1, 2042		\$395,000 Term Bonds Due September 1, 2044	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2041	\$ 175,000	2043	\$ 195,000
2042 (maturity)	185,000	2044 (maturity)	200,000

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2025, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if fewer than all the Bonds outstanding within any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest that would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution. While the Bonds are in the Book-Entry-Only System, the Bonds will be registered in the name of Cede & Co. and will not be transferred. See “BOOK-ENTRY-ONLY SYSTEM.”

Replacement of Paying Agent/Registrar

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Lost, Stolen or Destroyed Bonds

In the event the book-entry-only system is discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, stolen or destroyed, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding. Registered Owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Issuance of Additional Debt

After issuance of the Bonds, the District will have \$70,615,000 principal amount of unlimited tax bonds authorized but unissued for water, sanitary sewer or drainage facilities and a like principal amount for refunding of such bonds, \$18,840,000 principal amount of unlimited tax bonds authorized but unissued for roads and a like principal amount for refunding of such bonds, \$8,000,000 principal amount of unlimited tax bonds authorized but unissued for parks and recreational facilities and a like principal amount for refunding of such bonds, and \$2,000,000 principal amount of unlimited tax bonds authorized but unissued for fire protection and a like principal amount for refunding of such bonds. The District anticipates selling additional bonds in the future. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. See “RISK FACTORS—Future Debt” and “THE SYSTEM—Future Debt.”

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. The District has adopted a park plan and conducted a park election which resulted in voter approval of \$8,000,000 principal amount in unlimited tax park bonds, all of which remains authorized but unissued. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of park bonds by the Commission; and (b) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. At a bond election held within the District on November 6, 2007, the voters of the District authorized the issuance of a total of \$2,000,000 principal amount of unlimited tax bonds for fire protection, all of which remains authorized but unissued. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) approval of the bonds for such purpose by the Commission; and (b) approval of bonds by the Attorney General of Texas.

The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. The District expects to issue additional bonds in order to reimburse the Developer for the cost of a waterworks, wastewater and drainage facilities, park and recreational facilities, and roadways constructed within the District and for fire protection. Issuance of additional bonds could dilute the investment security for the Bonds.

Dissolution of District

Under existing Texas law, because the District lies wholly within the corporate limits of the City of Webster, the District must conform to a City of Webster ordinance consenting to the creation of the District. In addition, the District may be dissolved by the City of Webster without the District's consent, provided that the City complies with certain requirements as described in the Utility Services Contract between the City of Webster and the District (the "Utility Agreement"). Under the terms of the Utility Agreement (as hereinafter defined), the City has agreed not to dissolve the District until one of the following conditions is satisfied: (i) forty years have elapsed since the effective date of the originally executed Utility Agreement (which is January 24, 2006) or (ii) the District's System has been constructed and the Developer, or the Developer's successor or assigns, have been reimbursed for such facilities by the District to the maximum extent permitted by the rules of the Commission or the City assumes any obligation for such reimbursement of the District under such rules. If the District is dissolved, the City will assume the District's assets and obligations (including the Bonds and the responsibility to make any eligible reimbursement owed to the Developer in accordance with the applicable reimbursement agreements and rules of the Commission). No representation is made concerning the City's ability to make debt service payments if the District is dissolved. Dissolution of the District by the City of Webster is a policy-making matter within the discretion of the Mayor and City Council of the City of Webster, and therefore, the District makes no representation that abolishment will or will not occur. See "THE DISTRICT-Utility Agreement Between the District and the City of Webster."

Remedies in Event of Default

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 observance 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 a 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 property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or 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. See "RISK FACTORS-Registered Owners' Remedies and Bankruptcy Limitations."

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is quoted from Section 49.186 of the Texas Water Code, and is applicable to the District:

"(a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic."

“(b) A district’s bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.”

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations, or investment criteria which might apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

Defeasance

The Bond Resolution provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest, and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and that mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

BOOK-ENTRY-ONLY SYSTEM

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 or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will 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 "Procedure" of DTC to be followed in dealing with DTC Direct Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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 neither the District nor the Initial Purchaser take any responsibility for the accuracy thereof.

THE DISTRICT

General

Harris County Municipal Utility District No. 481 (the "District") is a municipal utility district created by order of the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), dated May 1, 2007, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes applicable to municipal utility districts. The City of Webster, Texas (the "City of Webster" or the "City").

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish parks and recreational facilities for the residents of the District, to contract for or employ its own peace officers and, after approval by the City, the Commission and the voters of the District, to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts. Additionally, the District may, subject to certain limitations, develop and finance roads.

The Commission exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City of Webster which limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, fire protection, parks and recreational facilities and roads and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Webster of District construction plans; and permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City of Webster. See "THE SYSTEM."

Description and Location

The District presently contains approximately 332 acres of land and is located approximately 21 miles southeast of the central downtown business district of the City of Houston. The District is bounded on the west by State Highway 3, on the north by NASA Parkway, and on the south by Clear Creek. Egret Bay Boulevard lies approximately 1,500 feet east of the District. See “AERIAL PHOTOGRAPH” herein.

Land Use

The following table has been provided by the Engineer and represents the current land use within the District.

Single Family Residential	Approx. Acres	Lots
Edgewater		
Section Three.....	18.2	62
Section Five.....	9.8	32
Section Six.....	16.2	59
Section Twelve.....	19.9	76
Section Thirteen (townhomes)	5.0	40
Section Fourteen.....	16.2	60
Subtotal:	85.3	329
Multi-Family.....	27.0	-
Parks and Recreation.....	6.6	-
Future Development.....	117.1	327
Undevelopable (a).....	96.0	-
Total:	332.0	656

(a) Consist of right-of-way, drainage easements, reserves, and utility sites.

Status of Development

Single-Family Residential and Townhomes: The District is being developed as Edgewater, a predominantly single-family and multi-family residential community. Development in the District currently includes 289 single-family residential lots and 40 townhome lots on approximately 85 acres. As of January 14, 2019, there were 225 completed single-family residential homes (all occupied), 2 model homes, 40 completed townhomes (all occupied), 32 single-family homes under construction (22 sold and 10 owned by a builder), 30 vacant developed single family lots available for home construction, and no vacant developed townhome lots available for home construction. Homes in the District have sold at prices ranging from approximately \$275,000 to \$375,000 for single family homes and approximately \$250,000 to \$275,000 for townhomes.

Coventry Homes and Westin Homes are currently building single-family homes in the District.

Multi-Family Residential: In addition to the development described above, the District contains a 414-unit apartment complex on approximately 27 acres. According to the apartment complex management, the apartments are 97% occupied.

Recreation Facilities: The Developer has constructed a recreation area, which includes a pavilion, playground and walking trails on approximately 7 acres in the District.

Future Development: Additionally, the District contains approximately 104 acres of developable land which are not provided with underground water, sanitary sewer and drainage facilities, park and recreational facilities, and roads and approximately 96 acres of land contained in drainage easements, rights-of-way, open space, District facilities. The District does not represent that any construction of additional utilities or homes or other taxable improvements will occur in the future. See “RISK FACTORS.”

Utility Agreement Between the District and the City of Webster

All land in the District is located within the corporate limits of the City of Webster. The City and the District have entered into a utility services contract, dated January 24, 2006 as revised on February 17, 2009, and as amended a second time on September 17, 2013 (as revised and amended, the “Utility Agreement”), which obligates the District to acquire, construct and extend water, sanitary sewer and drainage facilities (the “System”) to serve land in the District and, when completed in accordance with plans and specifications approved by the City, to convey title to such utility facilities to the City. The City then operates and maintains such facilities with the exception of navigational channels and detention basins, which will be owned and maintained by the District, and is responsible for establishing water and sewer rates and collection charges for water and sewer service within the District. The Utility Agreement obligates the City to provide permanent water supply and wastewater treatment for the District in an amount capable of serving a maximum of 2,072 equivalent single family connections. Pursuant to the Utility Agreement, the District purchases capacity in the City’s water supply and wastewater treatment facilities by paying utility impact fees to the City. The amount of such fees may be changed by the City from time to time and at any time, subject to certain limitations imposed by state law. The District may also construct recreational facilities and, when completed in accordance with plans and specifications and approved by the City, may convey title to the City for operation and maintenance by the City. The City also levies and collects ad valorem taxes on taxable property within the District just as it does with any other property located in the City. The City is not obligated to rebate ad valorem taxes, sales taxes, impact fees, permit fees, or any other fees and charges imposed by the City.

MANAGEMENT

Board of Directors

The District is governed by the Board of Directors, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors are elected by the voters within the District for four-year staggered terms. Director elections are held only in even numbered years. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>District Board Title</u>	<u>Term Expires</u>
Deborah Clements	President	May 2022
Bill Wood	Vice President	May 2020
Thomas M. Canning	Secretary	May 2022
Carol Kling	Assistant Vice President	May 2020
Cynthia Aldape	Assistant Secretary	May 2022

While the District does not employ any full time employees, it has contracted for certain services as follows:

Tax Assessor/Collector

Land and improvements within the District are appraised for ad valorem taxation purposes by the Harris County Appraisal District. The District’s Tax Assessor/Collector is appointed by the Board of Directors of the District. Assessments of the Southwest, Inc. is currently serving in this capacity for the District.

Bookkeeper

The District has engaged Myrtle Cruz, Inc. to serve as the District’s bookkeeper.

Engineer

The consulting engineer for the District in connection with the design and construction of the District’s facilities is LJA Engineering, Inc. (the “Engineer”).

Attorney

The District has engaged The Muller Law Group, PLLC as General Counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid 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, such fees are earned upon the sale and delivery of the Bonds.

Financial Advisor

Post Oak Municipal Advisors LLC (the “Financial Advisor”) serves as financial advisor to the District. The fee to be paid the Financial Advisor is contingent upon sale and delivery of the Bonds.

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District’s financial statements annually, which is filed with the Commission. The financial statements of the District as of June 30, 2018, and for the year then ended, included in this official statement, have been audited by McGrath & Co., PLLC, independent auditors, as stated in their report appearing herein. See “APPENDIX A” for a copy of the District’s June 30, 2018 audited financial statements.

THE DEVELOPER

Role of a Developer

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the Commission to pave certain streets, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

Cherokee Webster Development, L.P.

Approximately 98 acres in Edgewater has been developed by Cherokee Webster Development, L.P., a Delaware limited partnership (the “Developer”), whose general partner is Webster 538, L.P., a Texas limited partnership. The Developer was formed for the sole purpose of owning and developing the 332 acres of land in the District. The development is being directed by an affiliate of The Johnson Development Corp.

Neither the Developer nor any of its affiliates, is obligated to pay principal of or interest on the Bonds. Prospective purchasers are encouraged to investigate Edgewater in order to acquaint themselves with the nature of development that has occurred or is occurring within the boundaries of the District. See “RISK FACTORS.”

Development Management

The development of the Edgewater project is being managed by an affiliate of The Johnson Development Corp. Larry D. Johnson, President of The Johnson Development Corp., has over 40 years of experience in real estate development. Mr. Johnson’s real estate activities include over 77 projects resulting in the development of nearly 40,000 acres of multi-use commercial parks, office buildings, retail centers, residential subdivisions, master planned golf course communities and multi-family housing.

THE ROAD SYSTEM

One major thoroughfare, Water Street, which was constructed in three phases, currently exists within the District's boundary. Such thoroughfare has been accepted for ownership, operation, and maintenance by the City of Webster.

This road lies within the public right-of-way. In addition to the roadway, public utilities such as underground water, sewer and drainage facilities are also located within the right-of-way. The right-of-way is also shared by street lights, landscaping, sidewalks and franchise utilities (power, gas, telephone and cable).

THE SYSTEM

Regulation

According to the Engineer, the District's water supply and distribution, wastewater collection, and storm drainage facilities (collectively, the "System") have been designed in accordance with accepted engineering practices and the then current requirements of various entities having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction of the System was required to be accomplished in accordance with the standards and specifications of such entities and is subject to inspection by each such entity. Operation of the System must be accomplished in accordance with the standards and requirements of such entities. The Commission exercises continuing supervisory authority over the District. Discharge of treated sewage is subject to the regulatory authority of the Commission and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the City of Webster, Harris County and, in some instances, the Commission. Harris County and the City of Webster also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. In particular, additional or revised requirements in connection with any permit for the wastewater treatment plant in which the District owns capacity beyond the criteria existing at the time of construction of the plant could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by the Engineer.

Water Supply

Construction of the District's System has been financed with funds advanced by the Developer, a portion of which has been reimbursed with proceeds from the Outstanding Bonds. Additional costs of the System are expected to be reimbursed with the proceeds from the sale of future bonds.

Permanent water supply and wastewater treatment for the District are provided by the City of Webster pursuant to the Utility Agreement. Water supply is provided by the City of Webster, which obtains surface water from the City of Houston Southeast Water Purification Plant. Wastewater treatment is provided by the City of Webster's Wastewater Treatment Plant.

The District has been allocated 818 equivalent single-family connections from the City of Webster to date for water supply and wastewater treatment. Water supply and wastewater treatment capacities for future development will require additional water supply and wastewater treatment capacity allocations by the City of Webster as provided in the Utility Agreement. See "THE DISTRICT—Utility Agreement Between the District and the City of Webster."

All revenues from the collection of charges for water and sewer services are paid directly to the City of Webster.

100-Year Flood Plain

According to the Engineer, the Federal Emergency Management Agency map Community Panel No. 48201C1090 M shows that there are approximately 85 acres of undeveloped land within the District that is currently within the 100-year flood plain. Land proposed for development within the 100-year flood plain will be elevated with fill dirt to an elevation at or above the 100-year flood plain elevation to ensure that future finished floor elevations are above the 100-year floodplain based upon the new flood plain maps and in accordance with the city of Webster requirements. Additionally, the District's storm water drainage system has been designed and constructed in accordance with current applicable regulatory standards for a development of this size and location. See "RISK FACTORS-Recent Extreme Weather Events; Hurricane Harvey."

USE AND DISTRIBUTION OF BOND PROCEEDS

The estimated use and distribution of Bond proceeds is shown below. Of proceeds to be received from sale of the Bonds, \$2,652,301 is estimated for construction costs and \$90,000 is estimated for non-construction costs.

I. CONSTRUCTION RELATED COSTS

• Construction Cost Approved by the TCEQ.....	\$ 2,308,182
• Accrued Interest On Construction Cost.....	344,119
Total Construction Costs.....	\$ 2,652,301

II. NON-CONSTRUCTION COSTS

• Underwriter Discount (a).....	\$ 90,000
• Contingency (b).....	0
Total Non-Construction Costs.....	\$ 90,000

III. ISSUANCE COST AND FEES

• Issuance Cost and Professional Fees.....	\$ 209,199
• Bond Application Report Cost.....	38,000
• State Regulatory Fees.....	10,500
Total Issuance Cost and Fees.....	257,699
TOTAL BOND ISSUE.....	<u>\$ 3,000,000</u>

(a) The Commission approved a maximum Underwriter’s Discount of 3.0% of the Bonds.
 (b) The difference between the estimated and actual amount of Underwriter’s Discount are considered “Contingency” and are considered surplus funds subject to Commission Rules relating to the District’s use of such funds.

In the event approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses in accordance with the rules of the Commission. In the event actual costs exceed previously approved estimated amounts and contingencies, additional Commission approval and the issuance of additional bonds may be required.

Future Debt

The Developer has financed the engineering and construction costs of underground utilities to serve Edgewater, Sections 3, 5, 6, 12, and 14, and certain other District improvements, including drainage facilities. After reimbursement with Bond proceeds, the District will owe the Developer approximately \$5,587,827 plus interest for funds advanced to construct water, sanitary sewer, storm drainage, roads and recreational facilities, which are expected to be reimbursed with future bond proceeds. Additionally, the District presently contains approximately 104 acres of developable land not presently served with water distribution, wastewater collection and storm drainage facilities. It is anticipated that additional bonds will be issued to finance the construction of these facilities to serve this undeveloped acreage and to finance park and recreation facilities and roads. The District makes no representation that any additional development will occur within the District. See “THE BONDS—Issuance of Additional Debt.”

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
11/6/2007	Water, Sanitary Sewer and Drainage	\$82,500,000	\$11,885,000 *	\$70,615,000
11/6/2007	Recreational Bonds	\$8,000,000	\$0	\$8,000,000
11/6/2007	Fire Protection	\$2,000,000	\$0	\$2,000,000
11/4/2008	Roads	\$21,640,000	\$2,800,000	\$18,840,000
11/6/2007 & 11/4/2008	Refunding Bonds	\$114,140,000	\$0	\$114,140,000

* Includes the Bonds.

FINANCIAL STATEMENT (UNAUDITED)

2018 Certified Taxable Assessed Valuation.....	\$130,234,131 (a)
Estimated Taxable Assessed Valuation as of January 1, 2019.....	\$148,638,325 (b)
District Debt:	
Outstanding Bonds (as of January 14, 2019).....	\$10,790,000
The Bonds.....	<u>3,000,000</u>
Gross Debt Outstanding (after issuance of the Bonds).....	\$13,790,000
Ratio of Gross Debt to 2018 Certified Taxable Assessed Valuation.....	10.59%
Ratio of Gross Debt to Estimated Taxable Assessed Valuation as of January 1, 2019.....	9.28%

Area of District: 332 acres

- (a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
(b) As estimated by the Appraisal District as of January 1, 2019 for informational purposes only. The 2018 Certified Taxable Assessed Valuation established by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2018 to January 1, 2019. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year.

Cash and Investment Balances (unaudited as of February 11, 2019)

Operating Fund	Cash and Temporary Investments	\$847,791 (a)
Road Capital Projects Fund	Cash and Temporary Investments	\$19,393
WS&D Capital Projects Fund	Cash and Temporary Investments	\$224,903
Road Debt Service Fund	Cash and Temporary Investments	\$665,522 (b)
WS&D Debt Service Fund	Cash and Temporary Investments	\$214,741 (b)

- (a) The TCEQ approved an application to reimburse the Developer for eligible WS&D costs. The Operating Fund balance reflects the reduction of \$1,510,470 for such reimbursement made on February 11, 2019.
(a) Neither Texas law nor the Bond Resolution requires the District to maintain any minimum balance in the Debt Service Funds. Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue is allocated to bonds sold for road facilities (the "Road Bonds"), and a portion is allocated to bonds sold for water, sewer and drainage facilities including the Bonds (the "Water, Sewer and Drainage Bonds"). See "FINANCIAL STATEMENT (UNAUDITED)—Outstanding Bonds." The Road Debt Service Fund is not pledged to the Water, Sewer and Drainage Bonds and the Water, Sewer and Drainage Debt Service Fund is not pledged to the Road Bonds.

Outstanding Bonds (as of January 14, 2019)

<u>Series</u>	<u>Principal Amount</u>	<u>Outstanding as of January 14, 2019</u>
2014 (a)	\$5,800,000	\$5,300,000
2015 (b)	2,800,000	2,555,000
2017 (a)	3,085,000	2,935,000
		<u>\$10,790,000</u>

- (a) Unlimited Tax Bonds.
(b) Unlimited Tax Road Bonds.

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the District portfolio.

ESTIMATED OVERLAPPING DEBT STATEMENT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of the overlapping Tax Debt of the District.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$2,050,758,022	01/31/18	0.02%	\$ 410,152
Harris County Department of Education.....	6,555,000	01/31/18	0.02%	1,311
Harris County Flood Control District.....	83,075,000	01/31/18	0.02%	16,615
Harris County Hospital District.....	59,490,000	01/31/18	0.02%	11,898
Clear Creek ISD.....	942,950,000	01/31/18	0.49%	4,620,455
Port of Houston Authority.....	593,754,397	01/31/18	0.02%	118,751
City of Webster.....	20,865,000	01/31/18	5.92%	<u>1,235,208</u>
Total Estimated Overlapping Debt.....				\$ 6,414,390
The District.....	13,790,000 (a)	Current	100.00%	<u>13,790,000</u>
Total Direct and Estimated Overlapping Debt.....				\$20,204,390
Ratio of Total Direct and Estimated Overlapping Debt to:				
2018 Certified Taxable Assessed Valuation.....				15.51%
Estimated Taxable Assessed Valuation as of January 1, 2019.....				13.59%

(a) Includes the Outstanding Bonds and the Bonds.

Overlapping Tax Rates for 2018

	2018 Tax Rate per \$100 of <u>Taxable Assessed Valuation</u>
Harris County.....	\$ 0.418580
Harris County Department of Education.....	0.005190
Harris County Flood Control District.....	0.028770
Harris County Hospital District.....	0.171080
Port of Houston Authority.....	0.011550
Clear Creek ISD.....	1.400000
City of Webster.....	0.347940
Total Overlapping Tax Rate.....	\$ 2.383110
The District.....	<u>1.160000</u>
Total Tax Rate.....	\$ 3.543110

TAX DATA

Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. This summary has been prepared for inclusion herein, based upon information from the District's Tax Assessor/Collector. Reference is made to these records for further and more complete information.

Tax Year	Net Certified Taxable Valuation	Tax Rate	Total Tax Levy	Total Collections As of January 31, 2019 (a)	
				Amount	Percent
2013	\$62,887,650	\$1.20	\$754,652	\$754,652	100.00%
2014	75,472,281	1.20	905,667	905,667	100.00%
2015	93,249,710	1.20	1,118,997	1,118,997	100.00%
2016	102,776,994	1.19	1,223,046	1,223,046	100.00%
2017	122,667,739	1.16	1,422,946	1,422,946	100.00%
2018	130,234,131	1.16	1,510,716	<i>(in process of collections)</i>	

(a) Unaudited

Taxes are due October 1 and become delinquent if not paid before February 1 of the year following the year in which imposed. No split payments are allowed and no discounts are allowed.

Tax Rate Distribution

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Debt Service	\$0.90	\$0.68	\$0.60	\$0.63	\$0.00	\$0.00
Maintenance and Operations	<u>0.26</u>	<u>0.48</u>	<u>0.59</u>	<u>0.57</u>	<u>1.20</u>	<u>1.20</u>
Total	\$1.16	\$1.16	\$1.19	\$1.20	\$1.20	\$1.20

Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount).
 Maintenance and Operations: \$1.50 per \$100 of taxable assessed valuation.
 Road Maintenance: \$0.25 per \$100 of taxable assessed valuation.

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2018 in the amount of \$0.90 per \$100 of taxable assessed valuation. See “Tax Rate Distribution” herein.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. Pursuant to an election held on November 6, 2007, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$1.50 per \$100 of taxable assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds. The District levied a maintenance tax for 2018 in the amount of \$0.26 per \$100 of taxable assessed valuation.

Tax Exemptions

As discussed in the section titled “TAX PROCEDURES” herein, certain property in the District may be exempt from taxation by the District. The District exempts \$10,000 of the market value of residential homesteads from taxation of persons sixty-five (65) years or older. The Developer has executed a Waiver of Special Appraisal, waiving its right to claim any agriculture or open space exemptions or any other type of exemption or valuation for the property they own within the District that would reduce the assessed value of such land below its market value for purposes of ad valorem taxation by the District. Such waiver is binding for a period of thirty years.

Additional Penalties

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District established an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than May 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Property Tax Code.

Summary of Assessed Valuation

The following summary of the 2018, 2017, 2016, and 2015 taxable assessed valuation is provided by the District's Tax Assessor/Collector based on information contained in the 2018, 2017, 2016, and 2015 tax rolls of the District. A breakdown of the Estimated Taxable Assessed Valuations as of January 1, 2019 is not available from the Appraisal District. Differences in totals from others shown in this Official Statement are due to differences in dates of the data.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$26,666,709	\$29,830,307	\$25,601,887	\$21,685,488
Improvements	104,901,919	93,267,408	77,330,776	71,141,250
Personal Property	854,128	716,185	1,128,965	1,620,723
Exempt Property	<u>(2,188,625)</u>	<u>(1,146,161)</u>	<u>(1,284,634)</u>	<u>(1,197,751)</u>
Total Assessed Valuation	\$130,234,131	\$122,667,739	\$102,776,994	\$93,249,710

Principal Taxpayers (a)

The following list of principal taxpayers was provided by the District’s Tax Assessor/Collector based upon the 2018 certified tax rolls, which reflect ownership at January 1, 2018. A principal taxpayer list related to the Estimated Taxable Assessed Valuation as of January 1, 2019 is not available from the Appraisal District.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018 Certified Assessed Valuation</u>	<u>% of 2018 Certified Assessed Valuation</u>
Centennial Edgewater LP	Multi-Family	\$ 47,980,000	36.84%
Redus One LLC	Vacant Lots and Acreage	3,367,972	2.59%
Westin Homes and Properties LP	Real Estate Development	3,164,459	2.43%
Cherokee Webster Development LP	Real Estate Development	2,758,750	2.12%
MHI Partnership Ltd.	Real Estate Development	2,046,614	1.57%
CenterPoint Energy Inc.	Utility	543,760	0.42%
Individual	Residential	497,239	0.38%
MHI Models Ltd.	Real Estate Development	479,537	0.37%
Individual	Residential	471,753	0.36%
Individual	Residential	454,362	0.35%
Total for Principal Taxpayers		\$ 61,764,446	47.43%

(a) See “RISK FACTORS–Dependence on Principal Taxpayers.”

Tax Adequacy for Debt Service

The calculations showing the tax rates necessary to pay the District’s average and maximum annual debt service requirements on the Bonds and the Outstanding Bonds below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2018 Certified Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of January 1, 2019, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “DEBT SERVICE REQUIREMENTS” and “RISK FACTORS—Impact on District Tax Rates.”

Average annual debt service requirement (2019-2044).....	\$767,101
\$0.63 tax rate on the 2018 Certified Taxable Assessed Valuation of \$130,234,131 at a 95% collection rate produces.....	\$779,451
\$0.55 tax rate on the Estimated Taxable Assessed Valuation as of January 1, 2019 of \$148,638,325 at a 95% collection rate produces.....	\$776,635
Maximum annual debt service requirement (2022).....	\$974,609
\$0.79 tax rate on the 2018 Certified Taxable Assessed Valuation of \$130,234,131 at a 95% collection rate produces.....	\$977,407
\$0.70 tax rate on the Estimated Taxable Assessed Valuation as of January 1, 2019 of \$148,638,325 at a 95% collection rate produces.....	\$988,445

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 an amount sufficient to pay the principal of and interest on the Outstanding Bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “RISK FACTORS-Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully herein under “THE BONDS-Source of and Security for Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See “TAX DATA.”

Property Tax Code and County-Wide Appraisal District

Title 1 of the Texas Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”).

Property Subject to Taxation by the District

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. Principal categories of exempt property include, but are not limited to: 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; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles.

In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District 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.

Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, 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. 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 spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also 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. See "TAX DATA."

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) (not less than \$5,000) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1.

Freeport Goods and Goods-in-Transit Exemptions: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Harris County or the City of Webster may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the District, and the City of Webster, under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (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 the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Generally, assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code.

Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal 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, however, 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.

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. The District did not authorize reappraisal following Hurricane Harvey.

District and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal

property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Rollback of Operation and Maintenance Tax Rate

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent over the previous year. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT-Overlapping Tax Rates for 2018." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, 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. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records or by bankruptcy proceedings which restrict the collection of taxpayer debts. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "RISK FACTORS-General", "-Tax Collection Limitations," and "-Registered Owners' Remedies and Bankruptcy Limitations."

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 taxpayer 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.

OPERATING STATEMENT

General

The Outstanding Bonds and the Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the operation of the District's water and sewer operations are not pledged to the payment of the Bonds and the Outstanding Bonds but are available for any lawful purpose including payment of debt service on the Bonds and the Outstanding Bonds, at the discretion and upon action of the Board. It is not anticipated that any significant revenues, if any, will be available for the payment of debt service on the Outstanding Bonds or the Bonds.

General Fund Operating Statement

The following statement sets forth in condensed form the historical results of operation 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 summary is based upon information obtained from the audited financial statements, in the case of 2014 through 2018, and from the District's bookkeeper for the period ended February 11, 2019. Reference is made to such records and statements for further and more complete information.

	2/11/2019 (a)	Fiscal Year Ended June 30				
		2018	2017	2016	2015	2014
Revenues:						
Property Taxes	\$ 139,743	\$ 580,366	\$ 617,332	\$ 528,360	\$ 865,921	\$ 796,783
Penalty and Interest	-	-	-	-	2,419	1,017
Miscellaneous	-	500	-	-	70	4,344
Investment Earnings	5,923	13,239	6,844	6,045	5,596	-
Total Revenues	<u>\$ 145,666</u>	<u>\$ 594,105</u>	<u>\$ 624,176</u>	<u>\$ 534,405</u>	<u>\$ 874,006</u>	<u>\$ 802,144</u>
Expenditures:						
Professional Fees	\$ 87,131	\$ 156,187	\$ 129,993	\$ 83,815	\$ 79,058	\$ 71,101
Contracted Services	7,000	12,413	12,000	12,000	22,968	21,575
Repairs and Maintenance	6,557	135,835	122,293	134,116	149,648	161,829
Utilities	5,674	7,909	7,131	6,037	4,652	7,270
Administrative	18,915	32,397	27,372	33,119	25,558	24,634
Other	2,380	5,732	1,804	734	-	-
Capital Outlay	108,497	109,574	170,859	-	-	-
Debt Service Interest & Fees	-	-	-	-	39,152	-
Debt Issuance Costs	-	-	-	-	39,600	-
Total Expenditures	<u>\$ 236,155</u>	<u>\$ 460,047</u>	<u>\$ 471,452</u>	<u>\$ 269,821</u>	<u>\$ 360,636</u>	<u>\$ 286,409</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (90,489)</u>	<u>\$ 134,058</u>	<u>\$ 152,724</u>	<u>\$ 264,584</u>	<u>\$ 513,370</u>	<u>\$ 515,735</u>
Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ 42,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Other Financing Sources		42,518				
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$ (90,489)</u>	<u>\$ 176,576</u>	<u>\$ 152,724</u>	<u>\$ 264,584</u>	<u>\$ 513,370</u>	<u>\$ 515,735</u>
Beginning Fund Balance	<u>\$ 2,563,698</u>	<u>\$ 2,387,122</u>	<u>\$ 2,234,398</u>	<u>\$ 1,969,814</u>	<u>\$ 1,456,444</u>	<u>\$ 940,709</u>
Ending Fund Balance	<u>\$ 2,473,209</u>	<u>\$ 2,563,698</u>	<u>\$ 2,387,122</u>	<u>\$ 2,234,398</u>	<u>\$ 1,969,814</u>	<u>\$ 1,456,444</u>

(a) Unaudited, as provided by the Bookkeeper.

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the Outstanding Bonds and debt service requirements for the Bonds.

Year	Outstanding	Debt Service on the Bonds			Total
	Debt Service	Principal	Interest	Total	Debt Service
2019	\$ 792,619	\$ -	\$ 54,913	\$ 54,913	\$ 847,531
2020	794,414	65,000	109,825	174,825	969,239
2021	798,554	65,000	106,250	171,250	969,804
2022	801,934	70,000	102,675	172,675	974,609
2023	794,459	75,000	98,825	173,825	968,284
2024	796,409	75,000	94,700	169,700	966,109
2025	797,504	80,000	90,575	170,575	968,079
2026	802,296	85,000	86,375	171,375	973,671
2027	800,506	90,000	83,825	173,825	974,331
2028	797,706	95,000	81,125	176,125	973,831
2029	798,356	95,000	78,275	173,275	971,631
2030	787,984	100,000	75,425	175,425	963,409
2031	786,181	105,000	72,425	177,425	963,606
2032	783,319	115,000	69,275	184,275	967,594
2033	774,469	120,000	65,825	185,825	960,294
2034	780,019	125,000	62,075	187,075	967,094
2035	774,369	130,000	58,013	188,013	962,381
2036	742,269	135,000	53,625	188,625	930,894
2037	740,256	145,000	49,069	194,069	934,325
2038	322,063	150,000	43,994	193,994	516,056
2039		160,000	38,744	198,744	198,744
2040		165,000	33,144	198,144	198,144
2041		175,000	27,369	202,369	202,369
2042		185,000	21,025	206,025	206,025
2043		195,000	14,319	209,319	209,319
2044		200,000	7,250	207,250	207,250
Total	\$ 15,265,684	\$ 3,000,000	\$ 1,678,938	\$ 4,678,938	\$ 19,944,621

Average Annual Debt Service Requirements (2019-2044).....	\$767,101
Maximum Annual Debt Service Requirements (2022).....	\$974,609

RISK FACTORS

General

The Bonds, which are obligations of the District and not obligations of the State of Texas, Harris County, the City of Webster or any other political entity other than the District, will be secured by a continuing, direct, annual ad valorem tax levied, without legal limitation as to rate or amount, 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.

Recent Extreme Weather Events; Hurricane Harvey

The District is located approximately one and one-half mile from Clear Lake, which eventually outfalls into Galveston Bay. Land located in this area could be susceptible to storm surge caused by a hurricane. 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 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 26, 2017, brought historic levels of rainfall during the successive four days. According to the District’s Operator, there was no interruption of water and sewer service as a result of Hurricane Harvey. According to the District’s Engineer, the District’s system did not sustain any material damage from Hurricane Harvey. To the knowledge of the District, no multifamily, commercial or industrial properties within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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 of 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 property used for commercial, retail, and industrial purposes. The market value of such properties is related to general economic conditions in the City of Webster, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for property of this type and the construction of structures thereon can be significantly affected by factors such as interest rates, credit availability (see “Credit Markets and Liquidity in the Financial Markets” below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of commercial property 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 development funding have a direct impact on construction activity, particularly short-term interest rates at which landowners 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 21 miles southeast of 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 downturn in the economic conditions of Houston or decline in the nation’s real estate and financial markets could adversely affect development in the District and restrain the growth of or reduce the value of the District’s property tax base.

Dependence on Principal Taxpayers

Based upon the 2018 certified tax rolls, the top ten taxpayers were responsible for approximately 47.43% of the District’s 2018 taxes. The principal taxpayer in the District is Centennial Edgewater LP, owner of the apartment complex, which is responsible for approximately 36.84% of the District’s 2018 taxes. See “THE DISTRICT—Status of Development,” “THE DEVELOPER,” and “TAX DATA—Principal Taxpayers.” The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District will directly affect the District’s ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy additional taxes or use other available funds for debt service purposes. However, the District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis in amounts in excess of the District’s available funds could have a material adverse effect upon the District’s ability to pay debt service on the Bonds on a current basis.

Landowner Obligation to the District

There are no commitments from or obligations of the Developer to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the District, and there is no restriction on any landowner’s right to sell its land. Failure to construct taxable improvements on developed tracts of land would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds the District will increase or maintain its taxable value.

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2018 Certified Taxable Assessed Valuation of the District (see “FINANCIAL STATEMENT”) is \$130,234,131. After issuance of the Bonds, the maximum annual debt service requirement will be \$974,609 (2022) and the average annual debt service requirement will be \$767,101 (2019-2044). Assuming no increase or decrease from the 2018 Certified Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.79 per \$100 of taxable assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$974,609 and a tax rate of \$0.63 per \$100 of taxable assessed valuation at a 95% collection rate would be necessary

to pay the average annual debt service requirement of \$767,101. See “DEBT SERVICE REQUIREMENTS.” The Estimated Assessed Valuation as of January 1, 2019, within the District is \$148,638,325. Assuming no increase or decrease from the Estimated Assessed Valuation as of January 1, 2019, and a 95% collection rate, tax rates of \$0.70 and \$0.55 per \$100 taxable assessed valuation would be necessary to pay the maximum annual requirement and average annual requirement, respectively.

Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds based upon the 2018 Preliminary Taxable Assessed Valuation and the Estimated Assessed Valuation as of January 1, 2019, the District can make no representations regarding the future level of assessed valuation within the District. Increases in taxable values depend primarily on the continuing construction and sale of homes and other taxable improvements within the District. See “TAX PROCEDURES” and “TAX DATA—Tax Adequacy for Debt Service.”

Future Debt

The District may issue the remaining \$70,615,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, \$18,840,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing roads, \$114,140,000 principal amount of authorized but unissued unlimited tax bonds for refunding outstanding bonds of the District, \$8,000,000 principal amount of unlimited tax bonds for acquiring or constructing recreational facilities, and \$2,000,000 principal amount of unlimited tax bonds for fire protection, and the District may issue additional bonds which may be voted hereafter. After reimbursement with Bond proceeds, the District will owe the Developer approximately \$5,587,827 plus interest on the funds advanced, which is expected to be reimbursed with future bond proceeds. See “THE BONDS—Issuance of Additional Debt” and “THE SYSTEM—Future Debt.” The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities, recreational or fire-fighting facilities must meet the requirements of and be approved by the TCEQ. Additionally, the City of Webster Consent Resolution limits the total debt of the District to \$60,000,000 without further approval by the City.

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 market conditions limiting the proceeds from a foreclosure sale of taxable property and collection procedures. 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. The costs of collecting any such taxpayer’s delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a 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. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor’s confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See “TAX PROCEDURES—District’s Rights in the Event of Tax Delinquencies.”

Registered Owners’ Remedies and Bankruptcy Limitations

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 a 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 property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or 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 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. 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 subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

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 Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating the collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

A district may not be forced into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

The Bond Resolution contains covenants by the District intended to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Resolution 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. See "TAX MATTERS."

Marketability of the Bonds

The District has no agreement with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in 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 bonds of comparable maturity and quality issued by more traditional issuers as such bonds are generally bought, sold or traded in the secondary market.

Environmental Regulations

Wastewater treatment, water supply, storm sewer facilities and construction activities within the District are subject to complex environmental laws and regulations at the federal, state and local levels that may require or prohibit certain activities that affect the environment, such as:

- Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;
- Restricting the manner in which wastes are treated and released into the air, water and soils;
- Restricting or regulating the use of wetlands or other properties; or
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a municipal utility district or other type of special purpose district 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 issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion (“ppb”)) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (“the 1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (“the 2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (“the 2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

The HGB area is currently designated as a severe ozone nonattainment area under the the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area “anti-backsliding” requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ’s “redesignation substitute” for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB area under the 1997 Ozone Standard. The court has not responded to EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the *South Coast* court’s ruling, the TCEQ has developed a formal request that the HGB area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB area is currently designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more-stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB area is currently designated as a “marginal” nonattainment area under the 2015 Ozone Standard. For purposes of the 2015 Ozone Standard, the HGB area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB area 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. These SIP requirements 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. It is possible that additional controls will be necessary to allow the HGB area to reach attainment with the ozone standards by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB area’s economic growth and development.

Water Supply & Discharge Issues. Water supply and discharge regulations that municipal 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 federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts 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. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The District’s stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the “Current Permit”) issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District’s inclusion in the MS4 Permit were required 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 the MS4 Permit.

In 2015, the EPA and the United States Army Corps of Engineers (“USACE”) promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on municipal utility districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of “waters of the United States.” In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of “waters of the United States” to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of “waters of the United States.”

Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nation-wide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved.

On December 11, 2018, the EPA and USACE released the proposed replacement definition of “waters of the United States.” The proposed definition outlines six categories of waters that would be considered “waters of the United States,” including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not “waters of the United States,” such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies will take comment on the proposal for 60 days after publication in the Federal Register. Such publication has not yet occurred. If finalized, the proposed rule would apply nationwide, replacing the patchwork framework for Clean Water Act jurisdiction that has resulted from litigation challenging the CWR.

Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including permitting requirements.

Changes in Tax Legislation

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers should consult with their own tax advisors with respect to any proposed, pending or future legislation.

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has qualified for a bond insurance policy (the “Policy”) to guarantee the scheduled payment of principal and interest on the Bonds. Investors should be aware of the following investment considerations:

The long-term ratings on the Bonds are dependent in part on the financial strength of the Insurer and its claim paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE.”

The obligations of the Insurer are contractual obligations and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District nor the Initial Purchaser has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of the Insurer, particularly over the

life of the investment. See “MUNICIPAL BOND RATING” AND “MUNICIPAL BOND INSURANCE” for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas, payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect and to the effect that (i) interest on the Bonds is excludable from gross income for federal tax purposes under existing law and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

Bond Counsel has reviewed the information appearing in this Official Statement under “THE BONDS,” “THE DISTRICT-General,” “TAX PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS,” “QUALIFIED TAX-EXEMPT OBLIGATIONS,” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine if such information, insofar as it relates to matters of law, is true and correct, and whether such information fairly summarizes the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it 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 information contained herein.

The Muller Law Group, PLLC 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, such fees are contingent upon the sale and delivery of the Bonds. The legal fees paid to The Muller Law Group, PLLC in its capacity as General Counsel are based on time charges actually incurred.

No Material Adverse Change

The obligations of the Initial Purchaser 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 from that set forth or contemplated in the Preliminary Official Statement.

No-Litigation Certificate

The District will furnish the Initial Purchaser 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 to its knowledge 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 or the principal of 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 title of the present officers of the District.

TAX MATTERS

In the opinion of the Muller Law Group PLLC, Bond Counsel (“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 (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 legislature 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 has designated 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.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

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 "Initial Purchaser") bearing the interest rates shown on the cover page hereof, at a price of 97.00% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.694909% as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed at any time by the Initial Purchaser 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 Initial Purchaser may over-allot or effect transactions that stabilize or maintain the market prices of the Bonds at levels above those that 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 utility 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 municipal 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 offer and sale of the Bonds has been filed with the 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 jurisdiction.

MUNICIPAL BOND RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign their municipal bond ratings of "AA" to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. ("AGM"). The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. See "MUNICIPAL BOND INSURANCE." An explanation of the significance of such ratings may be obtained from S&P. This rating reflects only the views of S&P, and the District makes no representation as to the appropriateness of such rating. Further, there is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely, if in the sole judgment of S&P circumstances so warrant. Any such downward revisions or withdrawal of the rating may have an adverse effect on the trading value and the market price of the Bonds. See "MUNICIPAL BOND INSURANCE."

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

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

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

Current Financial Strength Ratings

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On June 26, 2018, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Capitalization of AGM

At September 30, 2018:

- The policyholders' surplus of AGM was approximately \$2,203 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,187 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,863 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the consolidated net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

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

- (i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018);
- (ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018);
- (iii) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (filed by AGL with the SEC on August 2, 2018); and
- (iv) The Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 (filed by AGL with the SEC on November 9, 2018).

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

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

Miscellaneous Matters

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

PREPARATION OF THE OFFICAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this Official Statement has been obtained primarily from the District’s records, the Developer, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from certain other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from sources other than the District, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under “Certification of Official Statement.” Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

Post Oak Municipal Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, including the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, Post Oak Municipal Advisors LLC has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources:

“THE DISTRICT” – Cherokee Webster Development, L.P. (“Developer”), LJA Engineering, Inc. (“Engineer”), and Records of the District (“Records”); “THE DEVELOPER” – the Developer; “THE SYSTEM” – Engineer; “UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED” - Records; “FINANCIAL STATEMENT” - Harris County Appraisal District and Assessments of the Southwest, Inc., Tax Assessor/Collector; “ESTIMATED OVERLAPPING DEBT STATEMENT” - Municipal Advisory Council of Texas and Financial Advisor; “TAX DATA” – Assessments of the Southwest, Inc.; “MANAGEMENT” – Records; “DEBT SERVICE REQUIREMENTS” - Financial Advisor; “THE BONDS,” “TAX PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS,” and “QUALIFIED TAX-EXEMPT OBLIGATIONS” - The Muller Law Group, PLLC.

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

Consultants

In approving this Official Statement, the District has relied upon the following consultants.

Engineer: The information contained in this Official Statement relating to engineering matters and to the description of the System and in particular that information included in the sections entitled “THE DISTRICT,” “THE ROAD SYSTEM” and “THE SYSTEM” has been provided by LJA Engineering, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the assessed valuations has been provided by the Harris County Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Harris County, including the District.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the Assessed Valuation, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Assessments of the Southwest, Inc. and is included herein in reliance upon the authority of such entity as experts in assessing and collecting taxes.

Auditor: The financial statements of the District as of June 30, 2018, and for the year then ended, included in this official statement, have been audited by McGrath & Co., PLLC, independent auditors, as stated in their report appearing herein. See “APPENDIX A” for a copy of the District’s June 30, 2018 audited financial statements.

Bookkeeper: The information related to the “unaudited” summary of the District’s General Operating Fund as it appears in “OPERATING STATEMENT” has been provided by Myrtle Cruz, Inc. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; 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 Initial Purchaser, unless the Initial Purchaser 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 as required by law (but not more than 90 days after the date the District delivers the Bonds).

Certification of Official Statement

The District, acting through its Board of Directors in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement 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 District 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 the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has made the following agreement for the benefit of the Registered 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 certain specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB through its EMMA system. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings “UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED,” “FINANCIAL STATEMENT (UNAUDITED),” “TAX DATA,” “OPERATING STATEMENT,” “DEBT SERVICE REQUIREMENTS,” (most of which information is contained in the District’s annual audited financial statements) and in APPENDIX A. The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2019.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Event Notices

The District will provide timely notices of certain specified 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 status of the Bonds, or other material events affecting the tax 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 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; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation, as described in the Rule, of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation, as described in the Rule, of the District, any of which reflect financial difficulties. The term “material” when used in this paragraph shall have the meaning ascribed to it under the federal securities laws. Neither the Bonds nor the Bond Resolution make 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 financial information, operational 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 specified 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 Registered or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance with Prior Undertakings

During the last five years, the District has no known failures to comply in all material respects with its previous continuing disclosure agreements.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 481, as of the date shown on the cover page.

/s/ Deborah Clements

President, Board of Directors

Harris County Municipal Utility District No. 481

ATTEST:

/s/ Thomas M. Canning

Secretary, Board of Directors

Harris County Municipal Utility District No. 481

AERIAL PHOTOGRAPH
(Approximate boundaries of the District as of January 2019)



S. EGRET BAY PKWY.



OLD GALVESTON RD.

HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 481
1/24/2019

NASA PKWY.

NASA 1 BYPASS

PHOTOGRAPHS

The following photographs were taken in the District in January 2019, solely to illustrate the type of improvements which have been constructed in the District. The District cannot predict if any additional improvements will be constructed in the future.











APPENDIX A

Independent Auditor's Report and Financial Statements for the fiscal year ended June 30, 2018

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 481**

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

June 30, 2018

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McGRATH & CO., PLLC

Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditors' Report

Board of Directors
Harris County Municipal Utility District No. 481
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 481, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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 basic 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 basic financial statements are free of 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 principles 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 to provide a basis for our audit opinions.

***Board of Directors
Harris County Municipal Utility District No. 481
Harris County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Municipal Utility District No. 481, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

W. G. Galt & Co., P.C.

Houston, Texas
October 8, 2018

Management's Discussion and Analysis

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***Harris County Municipal Utility District No. 481
Management's Discussion and Analysis
June 30, 2018***

Using this Annual Report

Within this section of the financial report of Harris County Municipal Utility District No. 481 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

***Harris County Municipal Utility District No. 481
Management's Discussion and Analysis
June 30, 2018***

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at June 30, 2018, was negative \$16,091,919. The District's net position is negative because the District incurs debt to construct water, sewer and drainage facilities (other than detention facilities) which it conveys to the City of Webster. A comparative summary of the District's overall financial position, as of June 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 3,918,445	\$ 3,336,315
Capital assets	<u>5,331,250</u>	<u>4,926,140</u>
Total assets	<u>9,249,695</u>	<u>8,262,455</u>
Current liabilities	571,380	357,441
Long-term liabilities	<u>24,770,234</u>	<u>23,048,928</u>
Total liabilities	<u>25,341,614</u>	<u>23,406,369</u>
Net position		
Net investment in capital assets	(967,492)	66,428
Restricted	941,017	750,136
Unrestricted	<u>(16,065,444)</u>	<u>(15,960,478)</u>
Total net position	<u>\$ (16,091,919)</u>	<u>\$ (15,143,914)</u>

***Harris County Municipal Utility District No. 481
Management's Discussion and Analysis
June 30, 2018***

The total net position of the District decreased during the current fiscal year by \$948,005. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2018</u>	<u>2017</u>
Revenues		
Property taxes, penalties and interest	\$ 1,405,121	\$ 1,243,127
Other	16,048	7,945
Total revenues	<u>1,421,169</u>	<u>1,251,072</u>
Expenses		
Operating and administrative	396,218	329,594
Debt interest and fees	382,857	306,880
Developer interest	375,168	
Debt issuance costs	272,701	
Depreciation and amortization	148,727	66,625
Total expenses	<u>1,575,671</u>	<u>703,099</u>
Change in net position before other item	(154,502)	547,973
Other item		
Transfers to other governments	<u>(793,503)</u>	<u>(470,759)</u>
Change in net position	(948,005)	77,214
Net position, beginning of year	<u>(15,143,914)</u>	<u>(15,221,128)</u>
Net position, end of year	<u><u>\$ (16,091,919)</u></u>	<u><u>\$ (15,143,914)</u></u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of June 30, 2018, were \$3,880,862, which consists of \$2,563,698 in the General Fund, \$1,066,447 in the Debt Service Fund, and \$250,717 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Total assets	<u><u>\$ 2,595,659</u></u>	<u><u>\$ 2,399,390</u></u>
Total liabilities	\$ 30,328	\$ 9,414
Total deferred inflows	1,633	2,854
Total fund balance	2,563,698	2,387,122
Total liabilities, deferred inflows and fund balance	<u><u>\$ 2,595,659</u></u>	<u><u>\$ 2,399,390</u></u>

***Harris County Municipal Utility District No. 481
Management's Discussion and Analysis
June 30, 2018***

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2018	2017
Total revenues	\$ 594,105	\$ 624,176
Total expenditures	(460,047)	(471,452)
Revenues over expenditures	134,058	152,724
Other changes in fund balance	42,518	
Net change in fund balance	<u>\$ 176,576</u>	<u>\$ 152,724</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resource in the General Fund are from a property tax levy, which is dependent upon assessed values in the District and the maintenance tax rate set by the District. While assessed values in the District increased from the prior year, property tax revenues decreased because the District decreased the maintenance component of the levy.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of June 30, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 1,069,401</u>	<u>\$ 849,163</u>
Total liabilities	\$ 639	-
Total deferred inflows	2,315	2,762
Total fund balance	1,066,447	846,401
Total liabilities, deferred inflows and fund balance	<u>\$ 1,069,401</u>	<u>\$ 849,163</u>

A comparative summary of the Debt Service Fund's activities for the current and prior fiscal year is as follows:

	2018	2017
Total revenues	\$ 828,255	\$ 632,361
Total expenditures	(608,209)	(554,519)
Revenues over expenditures	<u>\$ 220,046</u>	<u>\$ 77,842</u>

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues. The difference between these financial resources and debt service requirements resulted in an increase in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

***Harris County Municipal Utility District No. 481
Management's Discussion and Analysis
June 30, 2018***

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of June 30, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 253,385</u>	<u>\$ 87,762</u>
Total liabilities	\$ 2,668	\$ 4,000
Total fund balance	<u>250,717</u>	<u>83,762</u>
Total liabilities and fund balance	<u>\$ 253,385</u>	<u>\$ 87,762</u>

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2018	2017
Total revenues	\$ 478	\$ 103
Total expenditures	<u>(2,746,005)</u>	<u>(12,807)</u>
Revenues under expenditures	(2,745,527)	(12,704)
Other changes in fund balance	2,912,482	
Net change in fund balance	<u>\$ 166,955</u>	<u>\$ (12,704)</u>

The District issued its Series 2017 Unlimited Tax Bonds in the current year, but did not have any significant capital asset activity in the prior year.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$110,924 less than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developer for the financing of the construction of capital assets within the District. The Developer will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

***Harris County Municipal Utility District No. 481
Management's Discussion and Analysis
June 30, 2018***

Capital assets held by the District at June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital assets not being depreciated		
Land and improvements	\$ 3,323,642	\$ 3,323,642
Construction in progress		881,897
	<u>3,323,642</u>	<u>4,205,539</u>
Capital assets being depreciated/amortized		
Infrastructure	52,772	52,772
Landscaping improvements	1,922,084	976,746
Impact fees	390,894	10,072
Other facilities	109,574	
	<u>2,475,324</u>	<u>1,039,590</u>
Less accumulated depreciation/amortization		
Infrastructure	(9,384)	(8,211)
Landscaping improvements	(438,244)	(310,106)
Impact fees	(14,609)	(672)
Other facilities	(5,479)	
	<u>(467,716)</u>	<u>(318,989)</u>
Depreciable capital assets, net	<u>2,007,608</u>	<u>720,601</u>
Capital assets, net	<u>\$ 5,331,250</u>	<u>\$ 4,926,140</u>

Capital asset additions during the current year include the following:

- Ductbank to serve Edgewater Lakeside park
- Water Street and Stone Crossing sidewalk
- Landscaping to serve Edgewater Lake Park
- Impact fees paid to the City of Webster

The District and the City of Webster (the "City") have entered into an agreement which obligates the District to construct water, wastewater, and certain storm drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. Detention facilities and certain other capital assets are retained by the District. For the year ended June 30, 2018, capital assets in the amount of \$793,503 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

Long-Term Debt and Related Liabilities

As of June 30, 2018, the District owes \$14,184,165 to its developer for completed projects. The District intends to reimburse the developers from proceeds of future bond issues.

***Harris County Municipal Utility District No. 481
Management's Discussion and Analysis
June 30, 2018***

At June 30, 2018 and 2017, the District had total bonded debt outstanding as shown below:

Series	2018	2017
2014	\$ 5,475,000	\$ 5,640,000
2015 Road	2,640,000	2,720,000
2017	3,085,000	
	<u>\$ 11,200,000</u>	<u>\$ 8,360,000</u>

During the year, the District issued \$3,085,000 in unlimited tax bonds. At June 30, 2018, the District had \$73,615,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$8,000,000 for parks and recreational facilities; \$18,840,000 for road improvements; and \$2,000,000 for fire protection services.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	2018 Actual	2019 Budget
Total revenues	\$ 594,105	\$ 595,000
Total expenditures	(460,047)	(306,625)
Revenues over expenditures	134,058	288,375
Other changes in fund balance	42,518	
Net change in fund balance	176,576	288,375
Beginning fund balance	2,387,122	2,563,698
Ending fund balance	<u>\$ 2,563,698</u>	<u>\$ 2,852,073</u>

Property Taxes

The District's property tax base increased approximately \$5,077,000 for the 2018 tax year from \$122,663,032 to \$127,740,337. This increase was primarily due to increased property values. For the 2018 tax year, the District has levied a maintenance tax rate of \$0.26 per \$100 of assessed value, a water, sewer and drainage debt service tax rate of \$0.70 per \$100 of assessed value, and a road debt service tax rate of \$0.20 per \$100 of assessed value for a total combined tax rate of \$1.16 per \$100. Tax rates for the 2017 tax year were \$0.48 per \$100 for maintenance and operations, \$0.57 per \$100 for water, sewer and drainage debt service, and \$0.11 per \$100 for road debt service for a total rate of \$1.16 per \$100.

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Basic Financial Statements

Harris County Municipal Utility District No. 481
Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 1,748,822	\$ 1,070,014	\$ 253,445	\$ 3,072,281	\$ -	\$ 3,072,281
Investments	831,522			831,522		831,522
Taxes receivable	1,633	2,315		3,948		3,948
Prepaid items	6,086			6,086		6,086
Internal balances	2,988	(2,928)	(60)			
Accrued interest receivable	4,608			4,608		4,608
Capital assets not being depreciated					3,323,642	3,323,642
Capital assets, net					2,007,608	2,007,608
Total Assets	\$ 2,595,659	\$ 1,069,401	\$ 253,385	\$ 3,918,445	5,331,250	9,249,695
Liabilities						
Accounts payable	\$ 30,328	\$ -	\$ 2,668	\$ 32,996		32,996
Other payables		639		639		639
Accrued interest payable					127,745	127,745
Due to developer					14,184,165	14,184,165
Long-term debt						
Due within one year					410,000	410,000
Due after one year					10,586,069	10,586,069
Total Liabilities	30,328	639	2,668	33,635	25,307,979	25,341,614
Deferred Inflows of Resources						
Deferred property taxes	1,633	2,315		3,948	(3,948)	
Fund Balances/Net Position						
Fund Balances						
Nonspendable	6,086			6,086	(6,086)	
Restricted		1,066,447	250,717	1,317,164	(1,317,164)	
Unassigned	2,557,612			2,557,612	(2,557,612)	
Total Fund Balances	2,563,698	1,066,447	250,717	3,880,862	(3,880,862)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,595,659	\$ 1,069,401	\$ 253,385	\$ 3,918,445		
Net Position						
Net investment in capital assets					(967,492)	(967,492)
Restricted for debt service					941,017	941,017
Unrestricted					(16,065,444)	(16,065,444)
Total Net Position					\$ (16,091,919)	\$ (16,091,919)

See notes to basic financial statements.

Harris County Municipal Utility District No. 481
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 580,366	\$ 824,875	\$ -	\$ 1,405,241	\$ (854)	\$ 1,404,387
Penalties and interest		1,549		1,549	(815)	734
Miscellaneous	500			500		500
Investment earnings	13,239	1,831	478	15,548		15,548
Total Revenues	594,105	828,255	478	1,422,838	(1,669)	1,421,169
Expenditures/Expenses						
Operating and administrative						
Professional fees	156,187	640	26,377	183,204		183,204
Contracted services	12,413	16,700		29,113		29,113
Repairs and maintenance	135,835			135,835		135,835
Utilities	7,909			7,909		7,909
Administrative	32,397	1,322		33,719		33,719
Other	5,732	442	264	6,438		6,438
Capital outlay	109,574		2,071,495	2,181,069	(2,181,069)	
Debt service						
Principal		245,000		245,000	(245,000)	
Interest and fees		344,105		344,105	38,752	382,857
Developer interest			375,168	375,168		375,168
Debt issuance costs			272,701	272,701		272,701
Depreciation and amortization					148,727	148,727
Total Expenditures	460,047	608,209	2,746,005	3,814,261	(2,238,590)	1,575,671
Revenues Over (Under)						
Expenditures/Expenses	134,058	220,046	(2,745,527)	(2,391,423)	2,236,921	(154,502)
Other Financing Sources/(Uses)						
Proceeds from sale of bonds			3,085,000	3,085,000	(3,085,000)	
Internal transfers	42,518		(42,518)			
Repayment of operating advances			(130,000)	(130,000)	130,000	
Other Item						
Transfers to other governments					(793,503)	(793,503)
Net Change in Fund Balances	176,576	220,046	166,955	563,577	(563,577)	
Change in Net Position					(948,005)	(948,005)
Fund Balances/Net Position						
Beginning of the year	2,387,122	846,401	83,762	3,317,285	(18,461,199)	(15,143,914)
End of the year	\$ 2,563,698	\$ 1,066,447	\$ 250,717	\$ 3,880,862	\$ (19,972,781)	\$ (16,091,919)

See notes to basic financial statements.

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Harris County Municipal Utility District No. 481
Notes to Basic Financial Statements
June 30, 2018

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Municipal Utility District No. 481 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated May 1, 2007, and operates in accordance with the Texas Water Code, Chapters 49 and 54 and other general laws of the State of Texas. The Board of Directors held its first meeting on June 18, 2007 and the first bonds were sold on December 10, 2014.

The District’s primary activities include construction of water, sewer, drainage, roads and recreational facilities. As further discussed in Note 10, the District transfers its water, wastewater and drainage facilities (other than detention facilities and navigation channels) to the City of Webster for ownership, operation, and maintenance upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The Governmental Accounting Standards Board has established the criteria for determining whether or not 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 statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal source of revenue is property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes and interest earned on investments. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Note 1 – Summary of Significant Accounting Policies (continued)

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At June 30, 2018, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities, are depreciated or amortized using the straight-line method as follows:

Assets	Useful Life
Infrastructure	45 years
Landscaping improvements	15 years
Other facilities	20 years
Impact fees	40 years [max]

The District’s detention facilities and drainage channels are considered improvements to land and are non-depreciable.

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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. The District’s nonspendable fund balance consists of prepaid items.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District’s restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and property taxes levied for debt service in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

Harris County Municipal Utility District No. 481
Notes to Basic Financial Statements
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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 and does not have any assigned fund balances.

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to the City of Webster and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Harris County Municipal Utility District No. 481
Notes to Basic Financial Statements
June 30, 2018

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balances, governmental funds		\$ 3,880,862
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 5,798,966	
Less accumulated depreciation/amortization	<u>(467,716)</u>	
Change due to capital assets		5,331,250
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bonds payable, net	(10,996,069)	
Interest payable on bonds	<u>(127,745)</u>	
Change due to long-term debt		(11,123,814)
Amounts due to the District's developer for prefunded construction are recorded as a liability in the <i>Statement of Net Position</i> .		(14,184,165)
Property taxes receivable have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		3,948
Total net position - governmental activities		<u><u>\$ (16,091,919)</u></u>

Harris County Municipal Utility District No. 481
Notes to Basic Financial Statements
June 30, 2018

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* to the *Statement of Activities*

Net change in fund balances - total governmental funds \$ 563,577

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and related penalties and interest. (1,669)

Governmental funds report capital outlays for reimbursements to developers as expenditures in the funds; however, in the *Statement of Activities*, impact fees paid to the City of Webster are capitalized and charged to expense over the estimated useful life of the contract, while reimbursements for infrastructure assets are reported as transfers to other governments.

Capital outlays	\$ 2,181,069	
Transfers to other governments	(793,503)	
Depreciation/amortization expense	(148,727)	
		1,238,839

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

Issuance of long-term debt	(3,085,000)	
Repayment of operating advances	130,000	
Principal payments	245,000	
Interest expense accrual	(38,752)	
		(2,748,752)

Change in net position of governmental activities		\$ (948,005)
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Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District’s written investment policy establishes additional requirements for collateralization of deposits.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers’ acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District’s investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of June 30, 2018, the District’s investments consist entirely of certificates of deposits, which are reported at cost.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at June 30, 2018, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	\$ 2,928	Maintenance tax collections not remitted as of year end.
General Fund	Capital Projects Fund	60	Bond application fees paid by the General Fund.

Harris County Municipal Utility District No. 481
Notes to Basic Financial Statements
June 30, 2018

Note 4 – Interfund Balances and Transactions (continued)

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

A summary of internal transfers for the current fiscal year is as follows:

Transfers Out	Transfers In	Amounts	Purpose
Capital Projects Fund	General Fund	\$ 42,518	Reimbursement of bond application fees paid by the General Fund.

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended June 30, 2018, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 3,323,642	\$ -	\$ 3,323,642
Construction in progress	881,897	(881,897)	
	<u>4,205,539</u>	<u>(881,897)</u>	<u>3,323,642</u>
Capital assets being depreciated/amortized			
Infrastructure	52,772		52,772
Landscaping improvements	976,746	945,338	1,922,084
Impact fees	10,072	380,822	390,894
Other facilities		109,574	109,574
	<u>1,039,590</u>	<u>1,435,734</u>	<u>2,475,324</u>
Less accumulated depreciation/amortization			
Infrastructure	(8,211)	(1,173)	(9,384)
Landscaping improvements	(310,106)	(128,138)	(438,244)
Impact fees	(672)	(13,937)	(14,609)
Other facilities		(5,479)	(5,479)
	<u>(318,989)</u>	<u>(148,727)</u>	<u>(467,716)</u>
Subtotal depreciable capital assets, net	<u>720,601</u>	<u>1,287,007</u>	<u>2,007,608</u>
Capital assets, net	<u>\$ 4,926,140</u>	<u>\$ 405,110</u>	<u>\$ 5,331,250</u>

Depreciation and amortization expense for the current year was \$148,727.

Harris County Municipal Utility District No. 481
Notes to Basic Financial Statements
June 30, 2018

Note 6 – Due to Developer

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer, drainage, recreational, and road facilities. Under the agreements, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete.

Changes in amounts due to developers during the year are as follows:

Due to developer, beginning of year	\$ 15,147,893
Developer funded construction and adjustments	1,174,325
Developer reimbursements	(2,008,053)
Repayment of operating advances	(130,000)
Due to developer, end of year	<u><u>\$ 14,184,165</u></u>

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 11,200,000
Unamortized discounts	(203,931)
	<u><u>\$ 10,996,069</u></u>
Due within one year	<u><u>\$ 410,000</u></u>

The District's bonds payable at June 30, 2018, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/Ending	Interest Payment Dates	Call Dates
2014	\$ 5,475,000	\$ 5,800,000	2.00% - 4.125%	September 1, 2016 - 2037	September 1, March 1	September 1, 2022
2015 Road	2,640,000	2,800,000	1.50% - 4.00%	September 1, 2016 - 2038	September 1, March 1	September 1, 2022
2017	3,085,000	3,085,000	1.50% - 3.75%	September 1, 2018 - 2038	September 1, March 1	September 1, 2023
	<u><u>\$ 11,200,000</u></u>					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

Harris County Municipal Utility District No. 481
Notes to Basic Financial Statements
June 30, 2018

Note 7 – Long-Term Debt (continued)

At June 30, 2018, the District had authorized but unissued bonds in the amount of \$73,615,000 for water, sewer and drainage facilities; \$8,000,000 for park and recreational facilities; \$18,840,000 for road improvements; and \$2,000,000 for fire protection services.

On August 10, 2017, the District issued its \$3,085,000 Series 2017 Unlimited Tax Bonds at a net effective interest rate of 3.557806%. Proceeds of the bonds were used to reimburse the developer for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds.

The change in the District’s long term debt during the year is as follows:

Bonds payable, beginning of year	\$ 8,360,000
Bonds issued	3,085,000
Bonds retired	(245,000)
Bonds payable, end of year	<u>\$ 11,200,000</u>

As of June 30, 2018, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2019	\$ 410,000	\$ 376,343	\$ 786,343
2020	420,000	368,516	788,516
2021	430,000	358,984	788,984
2022	445,000	347,744	792,744
2023	460,000	335,696	795,696
2024	465,000	322,935	787,935
2025	480,000	309,456	789,456
2026	495,000	294,901	789,901
2027	515,000	278,901	793,901
2028	530,000	261,606	791,606
2029	545,000	243,031	788,031
2030	565,000	223,170	788,170
2031	575,000	202,083	777,083
2032	595,000	179,750	774,750
2033	615,000	156,394	771,394
2034	630,000	132,244	762,244
2035	660,000	107,194	767,194
2036	680,000	80,819	760,819
2037	675,000	53,763	728,763
2038	700,000	26,159	726,159
2039	310,000	6,031	316,031
	<u>\$ 11,200,000</u>	<u>\$ 4,665,720</u>	<u>\$ 15,865,720</u>

Harris County Municipal Utility District No. 481
Notes to Basic Financial Statements
June 30, 2018

Note 8 – Property Taxes

On November 6, 2007, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.25 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Harris County Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2018 fiscal year was financed through the 2017 tax levy, pursuant to which the District levied property taxes of \$1.16 per \$100 of assessed value, of which \$0.48 was allocated to maintenance and operations, \$0.57 was allocated to debt service, and \$0.11 was allocated for road debt service. The resulting tax levy was \$1,422,891 on the adjusted taxable value of \$122,663,032.

Note 9 – Transfers to Other Governments

In accordance with an agreement between the District and the City of Webster (the “City”), the District transfers all of its water, sewer, and certain drainage facilities to the City (see Note 10). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the estimated cost of the completed projects as transfers to other governments on the *Statement of Activities*. The estimated cost of each project is trued-up when the developer is subsequently reimbursed. For the year ended June 30, 2018, the District reported transfers to other governments in the amount of \$793,503 for developer reimbursements for projects completed in previous fiscal years.

Note 10 – Utility Agreement with the City of Webster

On January 24, 2006, the District entered into a utility agreement with the City of Webster (the “City”), later amended on September 17, 2013, for construction and extension of water distribution lines, sanitary sewer collection systems and drainage facilities to serve the District. As the system is acquired or constructed, the District shall transfer the system (if accepted by the City), with the exception of navigational channels and detention ponds, to the City but will reserve a security interest in the system and provide service to all users in the District. The term of the agreement is 40 years.

Water and sewer rates charged by the City to users in the District, shall be the same rates charged to similar users within the City. All revenue derived from these charges belongs to the City.

Harris County Municipal Utility District No. 481
Notes to Basic Financial Statements
June 30, 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 personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

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Required Supplementary Information

*Harris County Municipal Utility District No. 481
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2018*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 585,000	\$ 580,366	\$ (4,634)
Miscellaneous		500	500
Investment earnings	6,000	13,239	7,239
Total Revenues	<u>591,000</u>	<u>594,105</u>	<u>3,105</u>
Expenditures			
Operating and administrative			
Professional fees	99,500	156,187	(56,687)
Contracted services	12,000	12,413	(413)
Repairs and maintenance	20,000	135,835	(115,835)
Utilities	10,000	7,909	2,091
Administrative	28,700	32,397	(3,697)
Other	4,300	5,732	(1,432)
Capital outlay	129,000	109,574	19,426
Total Expenditures	<u>303,500</u>	<u>460,047</u>	<u>(156,547)</u>
Revenues Over Expenditures	287,500	134,058	(153,442)
Other Financing Sources			
Internal transfers		42,518	42,518
Net Change in Fund Balance	287,500	176,576	(110,924)
Fund Balance			
Beginning of the year	2,387,122	2,387,122	
End of the year	<u>\$ 2,674,622</u>	<u>\$ 2,563,698</u>	<u>\$ (110,924)</u>

Harris County Municipal Utility District No. 481
Notes to Required Supplementary Information
June 30, 2018

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Harris County Municipal Utility District No. 481
TSI-1. Services and Rates
June 30, 2018

1. Services provided by the District During the Fiscal Year:

- | | | | |
|--|---|--|--|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Solid Waste/Garbage | <input checked="" type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Flood Control | <input checked="" type="checkbox"/> Irrigation |
| <input checked="" type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input checked="" type="checkbox"/> Roads | <input type="checkbox"/> Security |
- Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)
- Other (Specify): Water and sewer services provided by the City of Webster.

2. Retail Service Providers N/A

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate (Y / N)</u>	<u>Rate per 1,000 Gallons Over Minimum Usage</u>	<u>Usage Levels</u>
Water:	_____	_____	_____	_____	_____ to _____
Wastewater:	_____	_____	_____	_____	_____ to _____
Surcharge:	_____	_____	_____	_____	_____ to _____

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC'S</u>
Unmetered	_____	_____	x 1.0	_____
less than 3/4"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1.5"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water	_____	_____	_____	_____
Total Wastewater	_____	_____	x 1.0	_____

See accompanying auditor's report.

Harris County Municipal Utility District No. 481
TSI-1. Services and Rates
June 30, 2018

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

Gallons pumped into system:	<u>N/A</u>	Water Accountability Ratio: (Gallons billed / Gallons pumped)
Gallons billed to customers:	<u>N/A</u>	<u>N/A</u>

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District (required for first audit year or when information changes, otherwise this information may be omitted):

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Harris County

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: City of Webster

Is the District located within a city's extra territorial jurisdiction (ETJ)?
Entirely Partly Not at all

ETJs in which the District is located: _____

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

See accompanying auditors' report.

***Harris County Municipal Utility District No. 481
TSI-2. General Fund Expenditures
For the Year Ended June 30, 2018***

Professional fees		
Legal	\$	73,699
Audit		9,500
Engineering		72,988
		<u>156,187</u>
Contracted services		
Bookkeeping		<u>12,413</u>
Repairs and maintenance		<u>135,835</u>
Utilities		<u>7,909</u>
Administrative		
Directors fees		11,250
Printing and office supplies		3,069
Insurance		6,057
Other		12,021
		<u>32,397</u>
Other		<u>5,732</u>
Capital outlay		<u>109,574</u>
Total expenditures	\$	<u><u>460,047</u></u>

Reporting of Utility Services in Accordance with Chapter 2264, TX Government code:

	<u>Usage</u>	<u>Cost</u>
Electrical	N/A	N/A
Water	1,825,000 Gallons	\$ 7,909
Natural Gas	N/A	N/A

See accompanying auditors' report.

Harris County Municipal Utility District No. 481
TSI-3. Investments
June 30, 2018

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Interest Receivable</u>
General					
Certificate of deposit	6000030392	2.10%	5/3/19	\$ 240,000	\$ 801
Certificate of deposit	1852001627	1.65%	3/17/19	102,281	486
Certificate of deposit	5597	2.10%	3/22/19	242,799	1,397
Certificate of deposit	1002803541	1.00%	9/18/18	246,442	1,924
				<u>\$ 831,522</u>	<u>\$ 4,608</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 481
TSI-4. Taxes Levied and Receivable
June 30, 2018

	Maintenance Taxes	Debt Service Taxes	Road Debt Service Taxes	Total
Taxes Receivable, Beginning of Year	\$ 2,854	\$ 1,318	\$ 628	\$ 4,800
Adjustments	(2,854)	(1,318)	(628)	(4,800)
Adjusted Receivable				
2017 Original Tax Levy	534,670	634,920	122,529	1,292,119
Adjustments	54,113	64,259	12,400	130,772
Adjusted Tax Levy	588,783	699,179	134,929	1,422,891
Tax collections:				
Current year	587,150	697,239	134,554	1,418,943
Taxes Receivable, End of Year	\$ 1,633	\$ 1,940	\$ 375	\$ 3,948
Taxes Receivable, By Years				
2017	\$ 1,633	\$ 1,940	\$ 375	\$ 3,948
	2017	2016	2015	2014
Property Valuations:				
Land	\$ 29,830,307	\$ 25,601,887	\$ 21,685,488	\$ 21,816,554
Improvements	93,267,408	77,330,776	71,141,250	53,271,313
Personal Property	711,478	1,367,718	1,620,723	1,005,433
Exemptions	(1,146,161)	(1,523,387)	(1,197,751)	(621,019)
Total Property Valuations	\$ 122,663,032	\$ 102,776,994	\$ 93,249,710	\$ 75,472,281
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.4800	\$ 0.5900	\$ 0.5700	\$ 1.2000
Debt service tax rates	0.5700	0.4061	0.4000	
Road debt service tax rates	0.1100	0.1939	0.2300	
Total Tax Rates per \$100 Valuation	\$ 1.1600	\$ 1.1900	\$ 1.2000	\$ 1.2000
Adjusted Tax Levy:	\$ 1,422,891	\$ 1,223,046	\$ 1,118,997	\$ 905,667
Percentage of Taxes Collected to Taxes Levied **	99.72%	100.00%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.25 on November 6, 2007

** Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

See accompanying auditors' report.

*Harris County Municipal Utility District No. 481
 TSI-5. Long-Term Debt Service Requirements
 Series 2014--by Years
 June 30, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2019	\$ 175,000	\$ 195,187	\$ 370,187
2020	180,000	191,637	371,637
2021	190,000	186,987	376,987
2022	200,000	181,138	381,138
2023	210,000	174,987	384,987
2024	215,000	168,613	383,613
2025	225,000	162,012	387,012
2026	235,000	154,819	389,819
2027	250,000	146,781	396,781
2028	260,000	138,012	398,012
2029	270,000	128,400	398,400
2030	285,000	117,994	402,994
2031	295,000	106,750	401,750
2032	310,000	94,650	404,650
2033	325,000	81,950	406,950
2034	335,000	68,750	403,750
2035	355,000	54,950	409,950
2036	370,000	40,219	410,219
2037	385,000	24,647	409,647
2038	405,000	8,353	413,353
	<u>\$ 5,475,000</u>	<u>\$ 2,426,836</u>	<u>\$ 7,901,836</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 481
 TSI-5. Long-Term Debt Service Requirements
 Series 2015 Road--by Years
 June 30, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2019	\$ 85,000	\$ 92,138	\$ 177,138
2020	90,000	90,298	180,298
2021	90,000	88,228	178,228
2022	95,000	85,913	180,913
2023	100,000	83,278	183,278
2024	100,000	80,378	180,378
2025	105,000	77,250	182,250
2026	110,000	73,863	183,863
2027	115,000	70,176	185,176
2028	120,000	66,150	186,150
2029	125,000	61,800	186,800
2030	130,000	57,145	187,145
2031	130,000	52,270	182,270
2032	135,000	47,100	182,100
2033	140,000	41,600	181,600
2034	145,000	35,900	180,900
2035	155,000	29,900	184,900
2036	160,000	23,600	183,600
2037	165,000	17,100	182,100
2038	170,000	10,400	180,400
2039	175,000	3,500	178,500
	<u>\$ 2,640,000</u>	<u>\$ 1,187,987</u>	<u>\$ 3,827,987</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 481
 TSI-5. Long-Term Debt Service Requirements
 Series 2017 --by Years
 June 30, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2019	\$ 150,000	\$ 89,018	\$ 239,018
2020	150,000	86,581	236,581
2021	150,000	83,769	233,769
2022	150,000	80,693	230,693
2023	150,000	77,431	227,431
2024	150,000	73,944	223,944
2025	150,000	70,194	220,194
2026	150,000	66,219	216,219
2027	150,000	61,944	211,944
2028	150,000	57,444	207,444
2029	150,000	52,831	202,831
2030	150,000	48,031	198,031
2031	150,000	43,063	193,063
2032	150,000	38,000	188,000
2033	150,000	32,844	182,844
2034	150,000	27,594	177,594
2035	150,000	22,344	172,344
2036	150,000	17,000	167,000
2037	125,000	12,016	137,016
2038	125,000	7,406	132,406
2039	135,000	2,531	137,531
	<u>\$ 3,085,000</u>	<u>\$ 1,050,897</u>	<u>\$ 4,135,897</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 481
 TSI-5. Long-Term Debt Service Requirements
 All Bonded Debt Series--by Years
 June 30, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2019	\$ 410,000	\$ 376,343	\$ 786,343
2020	420,000	368,516	788,516
2021	430,000	358,984	788,984
2022	445,000	347,744	792,744
2023	460,000	335,696	795,696
2024	465,000	322,935	787,935
2025	480,000	309,456	789,456
2026	495,000	294,901	789,901
2027	515,000	278,901	793,901
2028	530,000	261,606	791,606
2029	545,000	243,031	788,031
2030	565,000	223,170	788,170
2031	575,000	202,083	777,083
2032	595,000	179,750	774,750
2033	615,000	156,394	771,394
2034	630,000	132,244	762,244
2035	660,000	107,194	767,194
2036	680,000	80,819	760,819
2037	675,000	53,763	728,763
2038	700,000	26,159	726,159
2039	310,000	6,031	316,031
	<u>\$ 11,200,000</u>	<u>\$ 4,665,720</u>	<u>\$ 15,865,720</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 481
TSI-6. Change in Long-Term Bonded Debt
June 30, 2018

	Bond Issue			Totals
	Series 2014	Series 2015 Road	Series 2017	
Interest rate	2.00% - 4.125%	1.50% - 4.00%	1.50% - 3.75%	
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	
Maturity dates	9/1/16 - 9/1/37	9/1/16 - 9/1/38	9/1/18- 9/1/38	
Beginning bonds outstanding	\$ 5,640,000	\$ 2,720,000	\$ -	\$ 8,360,000
Bonds issued			3,085,000	3,085,000
Bonds retired	(165,000)	(80,000)		(245,000)
Ending bonds outstanding	\$ 5,475,000	\$ 2,640,000	\$ 3,085,000	\$ 11,200,000
Interest paid during fiscal year	\$ 198,588	\$ 93,688	\$ 52,584	\$ 344,860
Paying agent's name and city All Series	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas			
Bond Authority:	Water, Sewer and Drainage Bonds	Park Bonds	Road Bonds	Fire Protection Bonds
Amount Authorized by Voters	\$ 82,500,000	\$ 8,000,000	\$ 21,640,000	\$ 2,000,000
Amount Issued	(8,885,000)		(2,800,000)	
Remaining To Be Issued	\$ 73,615,000	\$ 8,000,000	\$ 18,840,000	\$ 2,000,000

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investments balances as of June 30, 2018: \$ 1,070,014

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 755,510

See accompanying auditors' report.

Harris County Municipal Utility District No. 481
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2018	2017	2016	2015	2014
Revenues					
Property taxes	\$ 580,366	\$ 617,332	\$ 528,360	\$ 865,921	\$ 796,783
Penalties and interest				2,419	1,017
Miscellaneous	500			70	
Investment earnings	13,239	6,844	6,045	5,596	4,344
Total Revenues	<u>594,105</u>	<u>624,176</u>	<u>534,405</u>	<u>874,006</u>	<u>802,144</u>
Expenditures					
Operating and administrative					
Professional fees	156,187	129,993	83,815	79,058	71,101
Contracted services	12,413	12,000	12,000	22,968	21,575
Repairs and maintenance	135,835	122,293	134,116	149,648	161,829
Utilities	7,909	7,131	6,037	4,652	7,270
Administrative	32,397	27,372	33,119	25,558	24,634
Other	5,732	1,804	734		
Capital outlay	109,574	170,859			
Debt service					
Interest and fees				39,152	
Debt issuance costs				39,600	
Total Expenditures	<u>460,047</u>	<u>471,452</u>	<u>269,821</u>	<u>360,636</u>	<u>286,409</u>
Revenues Over Expenditures	<u>\$ 134,058</u>	<u>\$ 152,724</u>	<u>\$ 264,584</u>	<u>\$ 513,370</u>	<u>\$ 515,735</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
98%	99%	99%	99%	99%
			*	*
*			*	
2%	1%	1%	1%	1%
100%	100%	100%	100%	100%
26%	21%	16%	9%	9%
2%	2%	2%	3%	3%
23%	20%	25%	17%	20%
1%	1%	1%	1%	1%
5%	4%	6%	3%	3%
1%	*	*		
18%	27%			
			4%	
			5%	
76%	75%	50%	42%	36%
24%	25%	50%	58%	64%

Harris County Municipal Utility District No. 481

*TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Four Fiscal Years*

	Amounts			
	2018	2017	2016	2015
Revenues				
Property taxes	\$ 824,875	\$ 628,161	\$ 582,884	\$ -
Penalties and interest	1,549	3,202	1,222	
Accrued interest on bonds sold				5,086
Investment earnings	1,831	998	801	344
Total Revenues	<u>828,255</u>	<u>632,361</u>	<u>584,907</u>	<u>5,430</u>
Expenditures				
Tax collection services	18,662	15,768	13,461	
Other	442	426	424	126
Debt service				
Principal	245,000	240,000		
Interest and fees	344,105	298,325	310,229	
Total Expenditures	<u>608,209</u>	<u>554,519</u>	<u>324,114</u>	<u>126</u>
Revenues Over Expenditures	<u>\$ 220,046</u>	<u>\$ 77,842</u>	<u>\$ 260,793</u>	<u>\$ 5,304</u>
Total Active Retail Water Connections	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total Active Retail Wastewater Connections	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015
100%	99%	100%	
*	1%	*	
			94%
*	*	*	6%
100%	100%	100%	100%
2%	2%	2%	
*	*	*	2%
30%	38%		
42%	47%	53%	
74%	87%	55%	2%
26%	13%	45%	98%

Harris County Municipal Utility District No. 481
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended June 30, 2018

Complete District Mailing Address: 202 Century Square Boulevard, Sugar Land, TX 77478
District Business Telephone Number: (281) 500-6050
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): July 9, 2018
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Deborah Clements	5/18 - 5/22	\$ 4,200	\$ 2,542	President
Bill Wood	5/16 - 5/20	2,250	1,029	Vice President
Tom Canning	5/18 - 5/22	600	7	Secretary
Cynthia Aldape	5/18 - 5/22	1,800	65	Assistant Secretary
Carol Kling	5/16 - 5/20	1,500	37	Assistant Vice President
Connie Brown	5/14 - 5/18	900	45	Former Director
Amounts Paid				
Consultants				
The Muller Law Group, PLLC	2014	\$ 188,377		Attorney
Myrtle Cruz, Inc.	2007	17,280		Bookkeeper
Assessments of the Southwest, Inc.	2007	6,256		Tax Collector
Harris County Appraisal District	Legislation	10,444		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2008	640		Delinquent Tax Attorney
LJA Engineering & Surveying, Inc.	2007			Engineer
<i>Amounts paid directly by District</i>		58,004		
<i>Amounts paid from developer reimbursements</i>		236,305		
McGrath & Co., PLLC	Annual			Auditor
<i>Annual financial statement audit</i>		9,500		
<i>Developer reimbursement report</i>		8,500		
Post Oak Municipal Securities, LLC	2018			Financial Advisor
FirstSouthwest, a Division of Hilltop Securities	2007	67,989		Former Financial Advisor
TBG Partners	2007	18,073		Landscape Architect

* Fees of Office are the amounts actually paid to a director during the District's fiscal year.
See accompanying auditors' report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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