

OFFICIAL STATEMENT DATED FEBRUARY 25, 2019

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, AND INTEREST ON THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE DISTRICT HAS DESIGNATED THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS" HEREIN.

NEW ISSUE-Book-Entry-Only

Insured Rating (AGM): S&P "AA" (stable outlook)
Underlying Rating: S&P "BBB+"
See "MUNICIPAL BOND RATING" and
"MUNICIPAL BOND INSURANCE"

\$9,440,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX REFUNDING BONDS
SERIES 2019

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 49 (the "District") and are not obligations of the State of Texas, Harris County or any entity other than the District.

Interest Accrues from: March 1, 2019

Due: April 1, as shown below

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from March 1, 2019, and is payable each October 1 and April 1, commencing October 1, 2019, until maturity or prior redemption. The Bonds will be issued only in fully registered form. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their 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/Registrar 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. See "BOOK-ENTRY-ONLY SYSTEM."



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. See "MUNICIPAL BOND INSURANCE" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (April 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (c)	Due (April 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (c)
2020	\$ 85,000	3.00 %	1.89 %	414945 KY0	2028	\$ 970,000 (b)	3.00 %	2.90 %	414945 LG8
2021	85,000	3.00	1.95	414945 KZ7	2029	755,000 (b)	3.00	3.09	414945 LH6
2022	85,000	3.00	2.06	414945 LA1	2030	805,000 (b)	4.00	2.72	414945 LJ2
2023	85,000	3.00	2.19	414945 LB9	2031	850,000 (b)	4.00	2.82	414945 LK9
2024	500,000	2.00	2.34	414945 LC7	2032	900,000 (b)	4.00	2.94	414945 LL7
2025	520,000	3.00	2.50	414945 LD5	2033	955,000 (b)	4.00	3.00	414945 LM5
2026	900,000 (b)	3.00	2.62	414945 LE3	2034	1,010,000 (b)	4.00	3.04	414945 LN3
2027	935,000 (b)	3.00	2.75	414945 LF0					

- (a) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. Accrued interest from March 1, 2019 is to be added to the price.
- (b) Bonds maturing on or after April 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 April 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (c) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. THE BONDS AND THE ISSUANCE THEREOF ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District. Certain other legal matters will be passed upon, on behalf of the Underwriter, by McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds through DTC is expected on or about March 28, 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 representations 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, contracts, audits, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas, 77019 upon payment of the costs for duplication thereof.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition of the District or other matters described herein since the date hereof. 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 Underwriter of the Bonds, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District’s obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

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.”

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$9,684,842.24 (representing the par amount of the Bonds of \$9,440,000, plus a net premium on the Bonds of \$314,320.60, less an Underwriter’s discount of \$69,478.36 plus accrued interest). The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

Prices and Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of 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 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 and the Bonds have not 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.

OFFICIAL STATEMENT SUMMARY

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

HURRICANE HARVEY

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

Impact on the DistrictAccording to Benchmark Engineering Corp. (the "Engineer"), the District's System (as defined herein) did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Approximately 50 homes and three businesses within the District experienced structural flooding or other material 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 in 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. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey.”

THE DISTRICT

Description.....The District, located in Harris County, Texas, was created by the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the “Commission”), by an order dated June 19, 1973, pursuant to Article XVI, Section 59, Texas Constitution and operates pursuant to Chapters 49 and 54, Texas Water Code V.T.C.A., as amended. The District contains approximately 872 acres.

LocationThe District is located in northeast Harris County, approximately 17 miles northeast of downtown Houston. Garner’s Bayou and John Ralston Road split the east and west halves of the District and Beltway 8 splits the north and south halves of the District. Access to the District is provided by U.S. Highway 59 North to Beltway 8 to John Ralston Road. The District is located entirely within the extraterritorial jurisdiction of the City of Houston.

Status of Development.....Approximately 532 acres of land within the District have been developed as the single family residential subdivisions of Timberhills, Section 1, Sunset Ridge, Sections 1 through 8, Sunset Ridge West, Sections 1 through 7, Eagle Creek, Sections 1 and 3, Fall Creek East, Sections 1 and 2 and Fall Creek Sections 35, 36, and 39 through 44 (an aggregate of 2,501 lots).

As of December 6, 2018, 2,029 homes had been constructed in the District of which 2,010 were occupied, and 19 were unoccupied. There were also 160 homes under construction or listed in a builder’s name.

K. Hovnanian Company is building homes in Sunset Ridge West, Section 7, which range in sales price from approximately \$160,000 to \$200,000. Saratoga Homes and K. Hovnanian Company are building homes in Sunset Ridge, Section 7, which range in sales price from approximately \$220,000 to \$260,000. CalAtlantic Homes is building homes in Fall Creek, which range in sales price from approximately \$223,990 to \$270,990. Westin Homes is building homes in Fall Creek, which range in sales price from approximately \$264,000 to \$380,000. Saratoga Homes is building homes in Fall Creek East, Section 1 which range in sales price from approximately \$263,950 to \$367,950. K. Hovnanian Company is also building homes in Fall Creek East, Section 1, which range in sales price from approximately \$259,000 to \$284,000. See “STATUS OF DEVELOPMENT IN THE DISTRICT.”

Approximately 12 acres of land have been developed as the Advenir at Eagle Creek Apartments, a 258-unit apartment complex. According to the management for the Advenir at Eagle Creek Apartments, the complex is currently 95% leased. The Falls at Eagle Creek Apartments, a 412-unit apartment complex, have been developed on an approximately 30 acre tract of land in the District. According to apartment management, the Falls at Eagle Creek Apartments are currently 92% leased. Approximately 11 acres of land have been developed as the Generation Grove Apartments, a 257 unit apartment complex. According to the management for the Generation Grove Apartments, the complex is currently 92% leased. In addition, The Standard on the Creek, a 120 unit multifamily development on a 5.5 acre tract located in the District, opened in the fall of 2018. The project is comprised of 5 three-story buildings, and includes a clubhouse, fitness facility, cyber café, pool, and dog park. The Standard on the Creek is a mixed income apartment complex and a portion of the units have rent limitations based on the tenants area median income.

Approximately 89 acres of land within the District have been developed with underground utilities for commercial purposes on which commercial improvements have been constructed on approximately 33 acres. Improvements on such acreage include a commercial office complex on 2.125 acres, which is comprised of 6 buildings totaling 7,700 square feet, a Shell service station, a Popeye’s Restaurant, an NTB tire store, a 15,680 square foot retail center, a dry cleaners, a daycare center, a Sherwin Williams paint store, a mini-storage facility, and a medical clinic. In addition, a 38- room motel is under construction on approximately 1 acre of land in the District.

There are approximately 85 acres in the District remaining to be developed. Included in the 85 developable acres are approximately 15 acres of land owned by the Humble Independent School District, which is exempt from property taxes. There are approximately 107 acres that are undevelopable, including drainage easements, plant sites and parks and recreational sites. See “THE DISTRICT” and “STATUS OF DEVELOPMENT IN THE DISTRICT.”

Developers SSR-185 Investments, Ltd. (“SSR-185”), a Texas limited partnership, has developed Sunset Ridge Sections 4 through 7 (442 lots on approximately 71 acres). SSR-185 has contracted with K. Hovnanian and Saratoga Homes to build homes in Sunset Ridge Section 7. SSR-185 and its affiliate BWH40 Commercial, Ltd. own an additional approximately 29 acres in the District. BWH40 Commercial, Ltd. also owns approximately 40 acres of commercial reserves which it has developed with water, sewer and drainage facilities. All of this acreage is being marketed for commercial purposes.

Lando Development, Ltd., a Texas limited partnership (“Lando”), has developed approximately 89 acres into the subdivisions of Sunset Ridge West, Sections 1 through 7, which consist of 562 residential lots. Lando has contracted with Summit Management, LLC and International Investors Group, Inc. to manage the development of its property.

JNC Development, Inc. has completed construction of utilities to serve Fall Creek East Section 1 (102 lots on approximately 22 acres) and Fall Creek East Section 2 (36 lots on approximately 6 acres) and owns no additional land in the District.

BPI Realty Services is developing a 3 acre tract of land for commercial purposes. Currently a SwimLabs swim school is under construction.

Hanover Estates, Ltd. owns approximately 7 acres in the District.

Payment RecordThe District has previously issued nine series of waterworks and sewer system combination unlimited tax and revenue bonds and three series of unlimited tax refunding bonds, a total of \$50,480,000 of which are outstanding as of January 1, 2019 (the “Outstanding Bonds”). The District has never defaulted in the timely payment of any previously issued bonds.

THE BONDS

The IssuerHarris County Municipal Utility District No. 49 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”

The IssueHarris County Municipal Utility District No. 49 \$9,440,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”) dated March 1, 2019. The Bonds mature serially on April 1 in each year from 2020 through 2034, inclusive, in the respective amounts and bear interest at the rates for each maturity shown on the cover page. Interest on the Bonds accrues from March 1, 2019 and will be payable on April 1 and October 1 of each year commencing on October 1, 2019 (seven months’ interest) until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”

RedemptionBonds maturing on April 1, 2026 and thereafter are subject to redemption, in whole or, from time to time in part, at the option of the District, prior to their maturity date, on April 1, 2025 or any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. If less than all of the Bonds of a given maturity are to be redeemed, the particular Bonds to be redeemed shall be selected on behalf of the District by the Paying Agent/Registrar by random method (or while the Bonds are in Book-Entry-Only form, by DTC in accordance with its procedures). See “THE BONDS—Redemption Provisions.”

Book-Entry-Only SystemThe definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry-Only System”.

Use of ProceedsProceeds from the sale of the Bonds together with other lawfully available funds of the District will be used to refund and defease \$9,400,000 principal amount of the District’s Outstanding Bonds in order to achieve annual and net present value savings in the District’s annual debt service expense. The Bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” Bond proceeds will also be used to pay certain costs associated with issuance of the Bonds, including the payment of any insurance premium. See “PLAN OF FINANCING—Refunded Bonds” and “—Sources and Uses of Funds.”

Source of PaymentPrincipal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District described herein. The Bonds are obligations of the District and are not obligations of Harris County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”

*Municipal Bond Insurance and
Municipal Bond Rating* It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”). S&P has also assigned an underlying rating of “BBB+” to the Bonds. An explanation of their ratings may be obtained from S&P. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”

*Qualified Tax-Exempt
Obligations*..... In the Bond Order, the District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986. See "TAX MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions."

Bond Counsel Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas.

Financial Advisor..... Masterson Advisors LLC, Houston, Texas.

Underwriter’s Counsel..... McCall Parkhurst & Horton, L.L.P., Houston, Texas.

Verification Agent Public Finance Partners LLC, Minneapolis, Minnesota.

Investment Considerations The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2018 Certified Taxable Assessed Valuation.....	\$513,890,360 (a)
Gross Direct Long-Term Debt Outstanding	\$50,520,000 (b)
Estimated Overlapping Debt	<u>23,393,153 (c)</u>
Gross Direct Long-Term Debt and Estimated Overlapping Debt	73,913,153
Ratio of Gross Direct Long-Term Debt to 2018 Certified Taxable Assessed Valuation.....	9.83%
Ratio of Gross Direct Long-Term Debt and Overlapping Debt to 2018 Certified Taxable Assessed Valuation.....	14.38%
Debt Service Fund Balance as of January 24, 2019	\$4,410,985 (d)
Operating Fund Balance as of January 24, 2019	\$6,655,434 (e)
Construction Fund Balance as of January 24, 2019	\$2,438,121
2018 Debt Service Tax Rate	\$0.68
2018 Maintenance Tax Rate.....	<u>0.18</u>
2018 Total Tax Rate	\$0.86
Average Annual Debt Service Requirement (2019-2043)	\$2,829,809 (b,f)
Maximum Annual Debt Service Requirement (2020)	\$3,578,369 (b,f)
Tax Rate Required to Pay Average Annual Debt Service (2019-2043) at a 95% Collection Rate Based upon 2018 Certified Taxable Assessed Valuation	\$0.58 /\$100 A.V.
Tax Rate Required to Pay Maximum Annual Debt Service (2020) at a 95% Collection Rate Based upon 2018 Certified Taxable Assessed Valuation	\$0.74 /\$100 A.V.
Water and Sewer Connections as of December 6, 2018 (g):	
Completed Homes – Occupied	2,010
Completed Homes – Vacant	19
Homes under construction or in a builder’s name	160
Vacant lots	342
Commercial Connections	19
Apartment Connections (1,047 apartment units)	4
Estimated 2019 Population.....	9,129 (h)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
- (b) After the issuance of the Bonds.
- (c) See “ESTIMATED OVERLAPPING DEBT STATEMENT.”
- (d) Unaudited. The District is not required to maintain a particular fund balance. The District will apply \$192,000 of this balance to the refunding of the Refunded Bonds. In addition to the balance shown, accrued interest on the Bonds from their dated date to the date of delivery will be deposited in the Debt Service Fund.
- (e) The District anticipates using approximately \$1,500,000 of this balance to reimburse developers for facilities constructed on the District’s behalf. See “INVESTMENT CONSIDERATIONS-Future Debt.”
- (f) See “DEBT SERVICE REQUIREMENTS.”
- (g) See “STATUS OF DEVELOPMENT IN THE DISTRICT.”
- (h) Based upon 3.5 persons per occupied residence and 2 persons per apartment unit.

OFFICIAL STATEMENT

\$9,440,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
(A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX REFUNDING BONDS, SERIES 2019

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 49 (the “District”) of its \$9,440,000 Unlimited Tax Refunding Bonds, Series 2019 (herein defined as the “Bonds”).

The Bonds are issued pursuant to the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”) and an election held on May 7, 1994. See “THE BONDS—Authority for Issuance and Issuance of Additional Debt.”

This OFFICIAL STATEMENT includes descriptions of, among other things, the Bonds and the Bond Order, and certain other information about the District and the developers in 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, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas, 77019 (“Bond Counsel”) upon payment of the costs of duplication thereof.

PLAN OF FINANCING

Purpose

The District currently has \$50,480,000 principal amount of its bonds outstanding (the “Outstanding Bonds”). The proceeds of the Bonds, together with legally available funds of the District, will be used to refund and defease portions of the Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2006 and Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2010, totaling \$9,400,000 principal amount (the “Refunded Bonds”) in order to achieve a net savings in the District’s debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds.” A total of \$41,080,000 principal amount of the District’s Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING—Outstanding Bonds” and “—Sources and Uses of Funds” below.

Outstanding Bonds

The following table lists the original principal amount, the currently outstanding principal amount, the principal amount of the Refunded Bonds and the principal amount of Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
WWSS Combination Unlimited Tax & Revenue Bonds, Series 2006	\$ 6,945,000	\$ 2,545,000	\$ 2,545,000	\$ -
WWSS Combination Unlimited Tax & Revenue Bonds, Series 2009	4,980,000	200,000		200,000
WWSS Combination Unlimited Tax & Revenue Bonds, Series 2010	7,205,000	6,905,000	\$ 6,855,000	50,000
WWSS Combination Unlimited Tax & Revenue Bonds, Series 2014	4,420,000	4,420,000		4,420,000
Unlimited Tax Refunding Bonds, Series 2014A	2,785,000	2,030,000		2,030,000
Unlimited Tax Refunding Bonds, Series 2015	5,940,000	5,690,000		5,690,000
WWSS Combination Unlimited Tax & Revenue Bonds, Series 2016	9,000,000	8,610,000		8,610,000
WWSS Combination Unlimited Tax & Revenue Bonds, Series 2017	11,110,000	10,760,000		10,760,000
WWSS Combination Unlimited Tax & Revenue Bonds, Series 2018	9,320,000	9,320,000		9,320,000
Total	\$ 61,705,000	\$ 50,480,000	\$ 9,400,000	\$ 41,080,000
The Bonds				9,440,000
The Bonds and Remaining Outstanding Bonds				\$ 50,520,000

Refunded Bonds

Proceeds of the Bonds, together with other lawfully available funds of the District, will be applied to refund and defease \$9,400,000 principal amount of the Refunded Bonds and to pay certain costs of issuing the Bonds. The principal amounts and maturity dates of the Refunded Bonds are set forth below:

Maturity Date	Series	Maturity Date	Series
<u>April 1</u>	<u>2006</u>	<u>April 1</u>	<u>2010</u>
2024	\$ 420,000	2020	\$ 50,000 (a)
2025	445,000	2021	50,000 (a)
2026	530,000	2022	50,000 (b)
2027	560,000	2023	50,000 (b)
2028	<u>590,000</u>	2024	50,000 (b)
	\$ 2,545,000	2025	50,000 (b)
		2026	350,000 (c)
		2027	365,000 (c)
Redemption Date:	4/3/2019	2028	380,000 (d)
		2029	770,000 (d)
		2030	825,000 (d)
		2031	875,000 (e)
		2032	935,000 (e)
		2033	995,000 (f)
		2034	<u>1,060,000</u> (f)
			\$6,855,000

- (a) Consisting of a term bond in the aggregate principal amount of \$100,000 maturing April 1, 2021 and subject to mandatory redemption.
- (b) Consisting of a term bond in the aggregate principal amount of \$200,000 maturing April 1, 2025 and subject to mandatory redemption.
- (c) Consisting of a term bond in the aggregate principal amount of \$715,000 maturing April 1, 2027 and subject to mandatory redemption.
- (d) Consisting of a term bond in the aggregate principal amount of \$1,975,000 maturing April 1, 2030 and subject to mandatory redemption.
- (e) Consisting of a term bond in the aggregate principal amount of \$1,810,000 maturing April 1, 2032 and subject to mandatory redemption.
- (f) Consisting of a term bond in the aggregate principal amount of \$2,055,000 maturing April 1, 2034 and subject to mandatory redemption.

Escrow Agreement

The Refunded Bonds and the interest due thereon, are to be paid on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Escrow Agent”).

The District will enter into an escrow agreement (“Escrow Agreement”) with the Escrow Agent, pursuant to which the proceeds of the Bonds will be deposited in cash or invested in certain securities of the United States of America (“Escrowed Securities”) and held in an escrow fund (“Escrow Fund”) to provide for the payment of principal and interest on the Refunded Bonds until their redemption date. At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Escrow Agent, Bond Counsel, and the Financial Advisor that the monies held in the Escrow Fund are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.” By the deposit of the cash with the Escrow Agent and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior orders of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the purpose of being paid from funds provided therefor in the Escrow Agreement, and the amounts so deposited in the Escrow Fund will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

Sources and Uses of Funds

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, will be applied as follows:

Sources of Funds:

Principal Amount of the Bonds	\$9,440,000.00
Plus: Net Premium on the Bonds.....	314,320.60
Accrued Interest	24,255.00
Plus: Transfer from Debt Service Fund.....	192,000.00
Total Sources of Funds.....	\$9,970,575.60

Uses of Funds:

Deposit to Escrow Fund with Escrow Agent	\$9,607,271.46
Issuance Expenses and Underwriters' Discount (a)	339,049.14
Accrued Interest	24,255.00
Total Uses of Funds	\$9,970,575.60

(a) Includes municipal bond insurance premium.

DEBT SERVICE REQUIREMENTS

The following table sets forth the actual debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$9,400,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2019	\$ 3,628,841	\$ 409,988		\$ 188,650	\$ 188,650	\$ 3,407,503
2020	3,630,294	459,050	\$ 85,000	322,125	407,125	3,578,369
2021	3,607,838	457,175	85,000	319,575	404,575	3,555,238
2022	3,593,719	455,206	85,000	317,025	402,025	3,540,538
2023	3,577,863	453,144	85,000	314,475	399,475	3,524,194
2024	3,562,006	862,681	500,000	308,200	808,200	3,507,525
2025	3,547,713	868,319	520,000	295,400	815,400	3,494,794
2026	3,569,463	1,225,350	900,000	274,100	1,174,100	3,518,213
2027	3,550,694	1,233,356	935,000	246,575	1,181,575	3,498,913
2028	3,542,345	1,239,145	970,000	218,000	1,188,000	3,491,200
2029	3,361,364	1,001,758	755,000	192,125	947,125	3,306,731
2030	3,329,381	1,021,269	805,000	164,700	969,700	3,277,813
2031	3,338,569	1,033,006	850,000	131,600	981,600	3,287,163
2032	3,352,519	1,051,829	900,000	96,600	996,600	3,297,291
2033	3,296,564	1,067,424	955,000	59,500	1,014,500	3,243,641
2034	3,295,842	1,084,645	1,010,000	20,200	1,030,200	3,241,397
2035	2,824,075	-	-	-	-	2,824,075
2036	2,782,309	-	-	-	-	2,782,309
2037	2,746,688	-	-	-	-	2,746,688
2038	1,935,016	-	-	-	-	1,935,016
2039	1,884,347	-	-	-	-	1,884,347
2040	1,852,978	-	-	-	-	1,852,978
2041	1,172,109	-	-	-	-	1,172,109
2042	395,391	-	-	-	-	395,391
2043	381,797	-	-	-	-	381,797
Total	\$ 71,759,722	\$ 13,923,344	\$ 9,440,000	\$ 3,468,850	\$ 12,908,850	\$ 70,745,228

Maximum Annual Debt Service Requirement (2020).....\$3,578,369
Average Annual Debt Service Requirement (2019-2043).....\$2,829,809

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 Order of the Board authorizing the issuance and sale of the Bonds. The Bond Order 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.

Method of Payment of Principal and Interest

The Bonds are dated March 1, 2019, and mature on April 1 in each of the years and in the principal amounts shown on the cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on April 1 and October 1, commencing October 1, 2019 (seven months' interest). The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry- Only System" herein.

In the event the Book-Entry-Only System is discontinued, interest on the Bonds will be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar to the registered owners ("Registered Owners") as shown on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

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 so do 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 ("DTC"), New York, NY, 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 Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 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.

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

Neither DTC nor Cede & Co. (nor 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 (or the Trustee on behalf thereof) 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).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds 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, 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. 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

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

Use of Certain Terms in Other Sections of this Official Statement

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

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 Bond Order. While the Bonds are in the Book-Entry-Only system, Bonds will be registered only in the name of Cede & Co and held by DTC. See "Book-Entry-Only System."

Mutilated, 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 therefore a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation 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.

If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the District and Registrar shall be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the District or the Paying Agent/Registrar in connection therewith.

If any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become payable, the District in its discretion may, instead of issuing a replacement Bond, authorize the Paying Agent/Registrar to pay such Bond.

Each replacement Bond delivered in accordance with this Section shall be entitled to the benefits and security of the Bond Order to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

Paying Agent/Registrar

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

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after April 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on April 1, 2025, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (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 less 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 so 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 which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Source of Payment

The Bonds, when issued, will constitute valid and binding obligations of the District and be payable as to principal and interest from and are secured by the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy a tax sufficient to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of levy and collection, Paying Agent/Registrar and Appraisal District fees. Tax proceeds, after deduction of collection costs, will be placed in the Debt Service Fund (as defined in the Bond Order) and used solely to pay principal of and interest on the Bonds and the Outstanding Bonds, and on any additional bonds issued by the District payable from taxes which may be levied. See "TAX DATA."

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

Funds

The Bond Order confirms the establishment of the District's Debt Service Fund. The Debt Service Fund is to be kept separate from all other funds of the District and used for payment of debt service on the Bonds, the Remaining Outstanding Bonds, and any of the District's duly authorized additional bonds, together with interest thereon, as such becomes due. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, the Remaining Outstanding Bonds, and any additional bonds.

Accrued interest on the Bonds will be deposited into the Debt Service Fund upon receipt. Any monies remaining after the deposit into the Escrow Fund and payment of issuance costs will be deposited into the Debt Service Fund.

Authority for Issuance and Issuance of Additional Debt

The Bonds are issued pursuant to the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended and City of Houston Ordinance No. 97-416.

The Bonds are the third series of bonds issued out of an aggregate of \$5,000,000 principal amount of unlimited tax refunding bonds authorized by the District's voters on May 7, 1994. After issuance of the Bonds, the District will have \$3,551,924.79 in authorized but unissued unlimited tax refunding bonds.

At a bond election held within the District on November 5, 2002, voters of the District authorized the issuance of \$58,780,000 principal amount of unlimited tax bonds and/or waterworks and sewer system combination unlimited tax and revenue bonds for water, sewer and drainage facilities, \$2,000,000 principal amount of which remain authorized but unissued. The District may issue such authorized but unissued bonds and any additional tax bonds or combination tax and revenue bonds voted in the future with the approval of the Commission, where applicable. The Board is further empowered to borrow money for any lawful purpose and to issue bond anticipation notes, tax anticipation notes, and revenue bonds and notes.

The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District (if authorized by the District's voters and approved by the Commission, where applicable). Any additional bonds issued by the District may be on a parity with the Bonds.

The District is also authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue bonds payable from taxes for fire-fighting activities, the following actions would be required: (i) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (ii) amendment of the existing City of Houston ordinance specifying the purposes for which the District may issue bonds; (iii) approval of the master plan and bonds by the Commission; and (iv) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes. The District has no information concerning any determination by the City of Houston concerning modifications of its ordinance.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the Commission; and (d) 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 Board has not considered calling a park bond election at this time.

Issuance of additional bonds or other subsequently authorized bonds could affect the investment quality or security of the Bonds. See “INVESTMENT CONSIDERATIONS--Future Debt.”

Defeasance

The Bond Order 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 as follows: (i) by paying or causing to pay principal and interest due on the Bonds (whether at maturity, redemption or otherwise) in accordance with the terms of the Bonds; (ii) 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 (iii) 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, or with a commercial bank or trust company designated in the proceedings authorizing the discharge 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 noncallable 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 the investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which 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 or payment 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.

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City of Houston without the District’s consent, and the City cannot annex territory within the District unless it annexes the entire District; however, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See “Strategic Partnership” below for a description of terms of the Strategic Partnership Agreement between the City and the District.

If the District is annexed, the City of Houston will assume the District’s assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Strategic Partnership Agreement

The District and the City of Houston (the “City”) have entered into a Strategic Partnership Agreement (the “SPA”) pursuant to Chapter 43 of the Texas Local Government Code dated effective December 12, 2008. The SPA provides for the “limited purpose annexation” for that portion of the District which has been or is expected to be developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for “full purposes” for at least thirty (30) years from the effective date of the SPA.

In addition, upon the effective date of the SPA, the City was authorized to impose the one percent (1%) City sales and use tax within the portion of the District included in the limited purpose annexation. The City is obligated to pay to the District an amount equal to one half (1/2) of all sales and use tax revenue generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (the “Sales Tax Revenue”). Pursuant to State law, the District is authorized to use Sales Tax Revenue generated under the SPA for any lawful purpose. None of the Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds.

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 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.

Amendments

The District has reserved the right to amend the Bond Order without the consent of the Registered Owners as may be required (a) by the provisions of the Bond Order, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Bond Order, or (c) in connection with any other change not to the prejudice of the Registered Owners, but the District may not otherwise amend the terms of the Bonds or of the Bond Order without the consent of the Registered Owners.

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Order. Except for mandamus, the Bond Order 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 Order 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 "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

THE DISTRICT

General

The District, located in Harris County, Texas, was created by the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the "Commission"), by an order dated June 19, 1973, pursuant to Article XVI, Section 59, Texas Constitution and operates pursuant to Chapters 49 and 54, Texas Water Code V.T.C.A., as amended. The District contains approximately 872 acres.

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; the control and diversion of storm water; and the collection of solid waste. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District also is empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the City of Houston, the Commission and the voters of the District. The District has the power to contract for peace officers to prevent or abate the commission of certain offenses against the rules of the District and the laws of the State of Texas. Additionally, the District may, subject to certain limitations, develop and finance parks and recreational facilities.

The Commission exercises continuing supervisory jurisdiction over the District. Construction and operation of the District's water, sewer and storm drainage system is subject to the regulatory jurisdiction of the City of Houston and of additional State of Texas agencies. See "THE SYSTEM--Regulation."

Description and Location

The District is located in northeast Harris County, approximately 17 miles northeast of downtown Houston. Garner's Bayou and John Ralston Road split the east and west halves of the District and Beltway 8 splits the north and south halves of the District. Access to the District is provided by U.S. Highway 59 North to Beltway 8 to John Ralston Road. The District is located entirely within the extraterritorial jurisdiction of the City of Houston.

STATUS OF DEVELOPMENT IN THE DISTRICT

Residential Development

Approximately 532 acres of land within the District have been developed as the single family residential subdivisions of Timberhills, Section 1, Sunset Ridge, Sections 1 through 8, Sunset Ridge West, Sections 1 through 7, Eagle Creek, Sections 1 and 3, Fall Creek East, Sections 1 and 2 and Fall Creek Sections 35, 36, and 39 through 44 (an aggregate of 2,501 lots).

As of December 6, 2018, 2,029 homes had been constructed in the District of which 2,010 were occupied, and 19 were unoccupied. There were also 160 homes under construction or listed in a builder's name.

Homebuilding Program

K. Hovnanian Company is building homes in Sunset Ridge West, Section 7, which range in sales price from approximately \$160,000 to \$200,000. Saratoga Homes and K. Hovnanian Company are building homes in Sunset Ridge, Section 7, which range in sales price from approximately \$220,000 to \$260,000. CalAtlantic Homes is building homes in Fall Creek, which range in sales price from approximately \$223,990 to \$270,990. Westin Homes is building homes in Fall Creek, which range in sales price from approximately \$264,000 to \$380,000. Saratoga Homes is building homes in Fall Creek East, Section 1 which range in sales price from approximately \$263,950 to \$367,950. K. Hovnanian Company is also building homes in Fall Creek East, Section 1, which range in sales price from approximately \$259,000 to \$284,000.

Multi Family Development

Approximately 12 acres of land have been developed as the Advenir at Eagle Creek Apartments, a 258-unit apartment complex. According to the management for the Advenir at Eagle Creek Apartments, the complex is currently 95% leased. The Falls at Eagle Creek Apartments, a 412-unit apartment complex, have been developed on an approximately 30 acre tract of land in the District. According to apartment management, the Falls at Eagle Creek Apartments are currently 92% leased. Approximately 11 acres of land have been developed as the Generation Grove Apartments, a 257 unit apartment complex. According to the management for the Generation Grove Apartments, the complex is currently 92% leased. In addition, The Standard on the Creek, a 120 unit multifamily development on a 5.5 acre tract located in the District, opened in the fall of 2018. The project is comprised of 5 three-story buildings and includes a clubhouse, fitness facility, cyber café, pool, and dog park. The Standard on the Creek is a mixed income apartment complex and a portion of the units have rent limitations based on the tenants' area median income.

Other Development

Approximately 89 acres of land within the District have been developed with underground utilities for commercial purposes on which commercial improvements have been constructed on approximately 33 acres. Improvements on such acreage include a commercial office complex on 2.125 acres, which is comprised of 6 buildings totaling 7,700 square feet, a Shell service station, a Popeye's Restaurant, an NTB tire store, a 15,680 square foot retail center, a dry cleaners, a daycare center, a Sherwin Williams paint store, a mini-storage facility, and a medical clinic. In addition, a 38-room motel is under construction on approximately 1 acre of land in the District. BPI Realty Services is developing a 3 acre tract of land for commercial purposes. Currently a SwimLabs swim school is under construction.

Undeveloped Acreage

There are approximately 85 acres in the District remaining to be developed. Included in the 85 developable acres are approximately 15 acres of land owned by the Humble Independent School District, which is exempt from property taxes. There are approximately 107 acres that are undevelopable, including drainage easements, plant sites and parks and recreational sites.

THE DEVELOPERS

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 streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. 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.

Prospective Bond purchasers should note that the prior real estate experience of the developers should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful.

The developers are not responsible for, liable for, nor have they made any commitments for payment of the Bonds or other obligations of the District. The developers have no legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of their property within the District, or any other assets, at any time. Further, the financial condition of the developers is subject to change at any time.

Lando Development, Ltd. and SSR-185 Investments, Ltd.

SSR-185 Investments, Ltd. (“SSR-185”), a Texas limited partnership, has developed Sunset Ridge Sections 4 through 8 (442 lots on approximately 71 acres). SSR-185 has contracted with K. Hovnanian and Saratoga Homes to build homes in Sunset Ridge Section 7. SSR-185 and its affiliate BWH40 Commercial, Ltd. own an additional approximately 29 acres in the District. BWH40 Commercial, Ltd. also owns approximately 40 acres of commercial reserves which it has developed with water, sewer and drainage facilities. All of this acreage is being marketed for commercial purposes.

Lando Development, Ltd., a Texas limited partnership (“Lando”), has developed approximately 89 acres into the subdivisions of Sunset Ridge West, Sections 1 through 7, which consist of 562 residential lots. Lando has contracted with Summit Management, LLC and International Investors Group, Inc. to manage the development of its property.

JNC Development Inc.

JNC Development, Inc. has completed construction of utilities to serve Fall Creek East Section 1 (102 lots on approximately 22 acres) and Fall Creek East Section 2 (36 lots on approximately 6 acres) and owns no additional land in the District.

Other Landowners

Hanover Estates, Ltd. owns approximately 7 acres of land in the District.

MANAGEMENT OF THE DISTRICT

Directors and Officers

The District is governed by a Board consisting of five directors. The Board has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms, and elections are held in May in even numbered years only. All of the directors either reside or own land within the District. The current members and officers of the Board, along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
August J. Nunez	President	May 2020
John C. Wright	Vice President	May 2020
Kermit D. Fisher	Secretary	May 2022
Jude Auzenne	Assistant Secretary	May 2022
Tim Reynolds	Director	May 2022

The District does not have a general manager or other employees, but the District contracts for certain necessary services as described below.

Tax Appraiser

The Harris County Appraisal District has the responsibility of appraising taxable property within Harris County, Texas, including property within the District. See “TAXING PROCEDURES.”

Tax Assessor/Collector

Land, improvements and other taxable property in the District are appraised for taxation by the Harris County Appraisal District. The District contracts with BLICO, Inc. d/b/a Bob Leared Interests to act as Tax Assessor/Collector for the District.

Engineer

The District's consulting engineer is Benchmark Engineering Corporation (the "Engineer").

Bookkeeper

The District has contracted with Claudia Redden & Associates, Inc. for bookkeeping services.

Utility System Operator

The District contracts with TNG Utility Corp. ("TNG") for maintenance and operation of the District's system.

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the Commission. The District's audited financial statements for the year ended June 30, 2018, were prepared by McCall Gibson Swedlund Barfoot PLLC. See "APPENDIX A" for a copy of the District's June 30, 2018 audited financial statements.

Financial Advisor

Masterson Advisors LLC serves as the District's Financial Advisor. The fee for services rendered by Masterson Advisors LLC in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Bond Counsel/Attorney

The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel to the District and as Bond Counsel in connection with the issuance of the Bonds. The fees for services rendered by the attorneys in their capacity as Bond Counsel are contingent upon the issuance, sale and delivery of the Bonds.

THE SYSTEM

Regulation

According to the Engineer, the District's water 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 agencies 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 Harris County Flood Control District, Harris County and, in some instances, the Commission. Harris County, the City of Houston, and the Texas Department of Health 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 which provides service to the District 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 District's Engineer.

Water Supply

The District has constructed surface water transmission facilities to connect the District's system to the City of Houston surface water supply. The District began receiving surface water from the City as of October 1, 2008 under its July 11, 2003 Water Supply and Groundwater Reduction Plan Wholesale Agreement with the City. The District receives adequate water supply flow and pressure from the City to serve 4,850 equivalent single-family connections ("ESFC").

The District has water plant facilities which will serve as an emergency supply source in the event of problems with the City of Houston's plant, supply line, water quality or service pressure. These facilities consist of one water plant with the capacity to serve 1,500 single family equivalent connections. Water Plant No. 1 has a 1,050 gallon-per-minute ("gpm") well and a backup well that pumps at 150 gpm, booster pump capacity of 5,100 gpm, 545,000 gallons of ground storage tank capacity, and 40,000 gallons of hydropneumatic tank capacity.

The District received an approval from the TCEQ on April 29, 2014 for a request for alternative capacity requirement for elevated storage for water distributions systems serving greater than 2,500 ESFC. As a part of the TCEQ approval of this request, the District plans to construct Water Plant No. 2 which will consist of a water well, ground storage tanks, hydro-tanks, booster pumps, chlorination facilities, control facilities, and provisions for an on-site generator. This second water plant will ensure the delivery of pressurized potable water to the residents and customers of the District. The District has acquired a site for the second water plant and design is underway. It is anticipated that the District will advertise for bids in the next few months for the construction of the second water plant.

The issuance of additional bonds by the District or the use of surplus operating funds in an undetermined amount may be necessary at some time in the future in order to expand the District's water supply system.

Subsidence District Requirements

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to annual permits issued by the Subsidence District. On April 14, 1999, the Subsidence District adopted a District Regulatory Plan to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction (as amended, the "Regulatory Plan"). Under the Regulatory Plan, the District was required to submit a groundwater reduction plan ("GRP") to the Subsidence District by January 2003 and begin construction of infrastructure identified in the GRP by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total annual water demand. Additional disincentive fees will be imposed under the Regulatory Plan if the District's groundwater withdrawal exceeds 70% of the District's total annual water demand beginning January 2010, exceeds 40% of the District's total annual water demand beginning January 2025, and exceeds 20% of the District's total annual water demand beginning January 2035.

By virtue of the City of Houston Water Supply and Groundwater Reduction Plan Wholesale Agreement the District entered into with the City effective July 11, 2003, the District is included in the Groundwater Reduction Plan ("GRP") prepared by the City, in order to meet the Subsidence District requirements. As a participant in the City's GRP, the District has complied with all Subsidence District requirements in regard to the conversion to surface water and is obligated to pay to the City a groundwater withdrawal fee for all groundwater produced by the District and a water purchase fee for the water actually purchased from the City by the District via the facilities and lines discussed above under "Water Supply."

As noted above under "Water Supply," the District has connected to the City of Houston's Surface Water System and began using surface water as of October 1, 2008.

The issuance of additional bonds by the District or the use of surplus operating funds in an undetermined amount may be necessary at some time in the future in order to make additional taps into the City's system or otherwise expand the District's surface water transmission system.

Wastewater Treatment System

The District's wastewater treatment is provided by a Wastewater Treatment Plant with 900,000 gallons per day ("gpd") wastewater treatment capacity, which is sufficient to serve 3,000 ESFCs based on 300 gpd per ESFC.

A 300,000 gpd wastewater treatment plant expansion is expected to be constructed in the future to accommodate the remaining developable acres.

Water Distribution and Sanitary Sewer Collection and Drainage System

The District's System includes water, sanitary sewer and drainage facilities to serve the subdivisions, apartment projects and commercial development described under the section "STATUS OF DEVELOPMENT IN THE DISTRICT."

100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded and a number of neighborhoods in the Greater Houston Area that are above the 100-year flood plain have flooded multiple times in the past several years.

According to the Engineer, all or portions of 22 lots in Timberhills, Section 1 are located in the flood plain. The finished floor elevations in the majority of these lots are at or above the Base Flood Elevation. Further, improvements have been completed to detention ponds outfalling into Garner's Bayou and fill was placed within parts of the District, all for the purpose of removing certain lands from the flood plain. All new structures are designed and constructed to have the finished floor elevation set at least 18 inches above the Base Flood Elevation in accordance with Harris County Permit Rules and Regulations.

WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

General

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. Certain of the District's Remaining Outstanding Bonds are also further payable from and secured by the pledge of and lien on certain net revenues, if any, from the District's waterworks and sewer system. It is not expected that any significant Net Revenues will be available for the payment of debt service on any of the District's bonds.

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 District's audited financial statements, and for the period ended December 31, 2018 from the District's bookkeeper. Reference is made to statements for further and more complete information.

	7/1/2018 to 12/31/2018(a)	Fiscal Year Ended June 30			
		2018	2017	2016	2015
Revenues					
Property Taxes	\$ 27,040	\$ 565,996	\$ 570,115	\$ 576,784	\$ 330,974
Water Service	553,514	1,060,011	906,371	876,209	772,921
Wastewater Service	422,600	776,639	717,259	628,201	591,005
Sales Tax Receipts	22,659	61,495	46,686	44,546	39,798
Penalty and Interest	24,881	51,286	77,269	61,632	54,586
Groundwater Reduction Fees	276,023	459,405	451,580	402,131	321,161
Tap Connection and Inspection Fees	120,631	512,693	520,929	267,030	169,048
Investment Revenues	59,659	64,750	22,736	7,436	1,365
Miscellaneous	32,688	85,145	85,128	78,566	62,136
Total Revenues	\$ 1,539,695	\$ 3,637,420	\$ 3,398,073	\$ 2,942,535	\$ 2,342,994
Expenditures					
Professional Fees	\$ 66,595	\$ 89,892	\$ 89,031	\$ 82,145	\$ 71,204
Contracted Services	192,590	684,448	568,877	529,305	504,437
Purchased Water Service	179,762	463,456	408,964	390,622	353,863
Utilities	52,673	140,054	121,438	123,547	125,121
Repairs and Maintenance	198,320	454,756	458,382	314,659	384,148
Other Expenditures	340,709	540,368	532,868	374,628	340,373
Capital Outlay	96,679	23,817	382,303	150,335	-
Total Expenditures	\$ 1,127,328	\$ 2,396,791	\$ 2,561,863	\$ 1,965,241	\$ 1,779,146
Net Revenues	\$ 412,367	\$ 1,240,629	\$ 836,210	\$ 977,294	\$ 563,848
Other Sources (Interfund Transfer)			\$ 2,388	\$ -	\$ -
Fund Balance (Beginning of Year)	\$ 5,658,978	\$ 4,418,349	\$ 3,579,751	\$ 2,602,457	\$ 2,038,609
Dated Date:					
Fund Balance (End of Year)	\$ 6,071,345	\$ 5,658,978	\$ 4,418,349	\$ 3,579,751	\$ 2,602,457

(a) Unaudited. Provided by the District's bookkeeper.

FINANCIAL STATEMENT

2018 Certified Taxable Assessed Valuation	\$513,890,360	(a)
District Debt		
Outstanding Bonds (as of January 1, 2019).....	\$50,480,000	
Less: the Refunded Bonds.....	9,400,000	
Plus: the Bonds	<u>9,440,000</u>	
Gross Debt Outstanding	\$50,520,000	
Estimated Overlapping Debt	<u>\$23,393,153</u>	
Gross Direct Long-Term Debt and Estimated Overlapping Debt	<u>\$73,913,153</u>	
Ratio of Gross Debt to 2018 Certified Taxable Assessed Valuation.....	9.83%	
Ratio of Gross Debt and Overlapping Debt to 2018 Certified Taxable Assessed Valuation.....	14.38%	

Area of District – 872 Acres Estimated 2019 population – 9,129 (b)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
 (b) Based upon 3.5 persons per occupied residence and 2 persons per apartment unit.

Cash and Investment Balances (unaudited as of January 24, 2019)

Debt Service Fund Balance as of January 24, 2019	\$4,410,985	(a)
Operating Fund Balance as of January 24, 2019	\$6,655,434	(b)
Construction Fund Balance as of January 24, 2019	\$2,438,121	

- (a) Under Texas law, the District is not required to maintain a particular fund balance. The District will apply \$192,000 of this balance to the refunding of the Refunded Bonds.
 (b) The District anticipates using approximately \$1,500,000 of this balance to reimburse developers for facilities constructed on the District’s behalf. See “INVESTMENT CONSIDERATIONS-Future Debt.”

Investment Policies and Procedures

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 are invested in short-term obligations of the U.S. Treasury and federal agencies, 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 or intend to purchase long-term securities or derivative products.

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 “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. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service, and the tax burden for operation, maintenance and/or general revenue purposes of these overlapping political subdivisions is not included in these figures. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 2,050,758,022	12/31/2018	0.09%	\$ 1,845,682
Harris County Flood Control District.....	83,075,000	12/31/2018	0.09%	74,768
Harris County Department of Education.....	59,490,000	12/31/2018	0.09%	53,541
Harris County Hospital District.....	6,555,000	12/31/2018	0.09%	5,900
Port of Houston Authority.....	593,754,397	12/31/2018	0.09%	534,379
Humble Independent School District.....	681,080,000	12/31/2018	2.85%	19,410,780
Lone Star College District.....	611,710,000	12/31/2018	0.24%	<u>1,468,104</u>
Total Estimated Overlapping Debt.....				\$ 23,393,153
The District.....	50,520,000 (a)	Current	100.00%	<u>50,520,000</u>
Total Direct and Estimated Overlapping Debt.....				\$ 73,913,153
Direct and Estimated Overlapping Debt as a Percentage of:				
2018 Certified Taxable Assessed Valuation \$513,234,915.....				14.38%

(a) Includes the Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes for 2018

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District’s tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see “ESTIMATED OVERLAPPING DEBT STATEMENT” above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the tax rates levied within the District for the 2018 tax year by all taxing jurisdictions, including the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy or charges imposed by entities other than political subdivisions.

	2018 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority).....	\$ 0.635170
Humble Independent School District.....	1.520000
Harris County ESD No. 10 (Fire).....	0.100000
Harris County ESD No. 1 (EMS).....	0.100000
Lone Star College System.....	<u>0.107800</u>
 Total Overlapping Tax Rate.....	 \$ 2.462970
 The District.....	 <u>0.860000</u>
 Total Tax Rate.....	 \$ 3.322970

TAX DATA

Debt Service Tax

The Board will covenant in the Bond Order to levy and collect, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax which, when added to other funds legally available to the District for payment of the District's outstanding debt obligations, is adequate to provide funds to pay the principal of and interest on the Bonds.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, upon authorization of the District's voters. At a maintenance tax election conducted April 5, 1986, voters of the District authorized the Board to levy a maintenance tax at a rate not to exceed \$0.35 per \$100 assessed valuation. The maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and the Remaining Outstanding Bonds.

Tax Rate Distribution

The following is the distribution of the District's total tax rate between debt service and maintenance taxes for the tax years 2014 through 2018.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Debt Service	\$0.6800	\$ 0.750	\$ 0.750	\$ 0.750	\$ 0.850
Maintenance and Operations	<u>0.1800</u>	<u>0.130</u>	<u>0.150</u>	<u>0.175</u>	<u>0.120</u>
Total	\$0.8600	\$0.8800	\$0.9000	\$0.9250	\$0.9700

Historical 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 District records. Reference is made to such records for further and more complete information.

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of November 30, 2018 (a)	
				Amount	Percent
2014	\$ 273,248,615	0.9700	\$ 2,683,513	\$ 2,669,002	99.46%
2015	328,123,156	0.9250	3,086,401	3,050,693	98.84%
2016	366,672,762	0.9000	3,330,469	3,290,727	98.81%
2017	439,551,933	0.8800	3,868,057	3,848,754	99.50%
2018	513,234,915	0.8600	4,413,821	(b)	(b)

- (a) Unaudited.
- (b) In process of collection.

Taxes are due October 1 (or when billed, if later) and become delinquent after January 31 of the following year. No split payments are allowed and no discounts are allowed.

Tax Roll Information

The District's certified value as of January 1 of each year is used by the District in establishing its tax rate for the same year. See "TAXING PROCEDURES-- Levy and Collection of Taxes." The following represents the type of property comprising the District's certified tax roll for the years 2014 through 2018. These values may differ slightly from values in other sections of the Official Statement due to different reporting dates.

	2018	2017	2016	2015	2014
Land	\$ 103,040,118	\$ 94,314,772	\$ 84,981,609	\$ 80,124,658	\$ 71,961,844
Improvements	422,724,390	361,599,843	297,454,298	269,557,736	212,976,152
Personal Property	7,572,246	7,209,301	7,249,286	7,839,352	6,337,482
Exemptions	(19,446,394)	(23,415,103)	(23,012,431)	(29,398,590)	(18,026,863)
Total	\$ 513,890,360	\$ 439,708,813	\$ 366,672,762	\$ 328,123,156	\$ 273,248,615

Principal Taxpayers

The following table represents the principal taxpayers for 2018, the type of property, the certified taxable assessed value of such property, and such property's assessed value as a percentage of the District's 2018 Certified Taxable Assessed Valuation of \$513,890,360.

Taxpayer	Type of Property	2018 Certified Taxable Assessed Valuation	% of 2018 Certified Taxable Assessed Valuation
Eagle Creek Acquisition LLC	Land and Improvements	\$ 40,975,124	7.97%
Advenir at Eagle Creek LLC	Land and Improvements	26,600,640	5.18%
14807 Woodland Hills Dr. 1	Land and Improvements	24,740,192	4.81%
Humble Storage 18 LLC	Land and Improvements	6,763,650	1.32%
Beltway 8 Ralston Ltd.	Land and Improvements	4,755,920	0.93%
BWH40 Commercial Ltd.	Land and Improvements	3,959,415	0.77%
Hannover Estates Ltd.	Land	3,669,799	0.71%
SSR 185 Investments Ltd.	Land	3,370,825	0.66%
The Standard on the Creek	Land and Improvements	3,216,791	0.63%
Sunset Ridge Retail Center	Land and Improvements	2,850,975	0.55%
Total		\$ 120,903,331	23.53%

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2018 Certified Taxable Assessed Valuation of \$513,890,360 (see "Tax Roll Information" above). The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, 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.

Average Annual Debt Service Requirement (2019-2043)	\$2,829,809
\$0.58 Tax Rate on 2018 Certified Taxable Assessed Valuation @ 95% collections	\$2,831,536
Maximum Annual Debt Service Requirement (2020)	\$3,578,369
\$0.74 Tax Rate on 2018 Certified Taxable Assessed Valuation @ 95% collections	\$3,612,649

TAXING 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 Bonds, the Remaining Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS—Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully herein under "THE BONDS—Source of Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See "TAX DATA—Maintenance Tax."

Tax Code and County-Wide Appraisal District

The Texas Tax Code (the "Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Tax Code are complex and are not fully summarized here.

The 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 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"). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax rolls and tax rate. The District is responsible under current Texas law for the levy and collection of its taxes.

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 years or older and of certain disabled persons to the extent deemed advisable by the Board. For tax year 2019, the District has adopted a residential homestead exemption in the amount of \$30,000 for persons age 65 and older and disabled persons. Additionally, 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. 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 of the surviving 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 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 District has not granted a general homestead exemption.

Freeport Goods Exemption 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 is limited to 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 the tax year 2011 and prior years, and has taken official action to allow taxation of all such goods-in-transit personal property for the tax year 2012 and subsequent years.

Tax Abatement

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the District, and the City of Houston, 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 certain terms for its tax abatement agreements without regard to such 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. 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.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) 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 fair 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

When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are prorated 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. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. Neither Harris County nor the District adopted an order regarding the reappraisal of property in the District.

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 Tax Code. The 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 in writing 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 equal 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.

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

Rollback of Operations and Maintenance Tax

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. If a rollback election is called and passes, the rollback tax rate is the District's current year's debt service tax rate plus the operations and maintenance tax rate that would impose 1.08 times the amount of operations and maintenance tax imposed by the District in the preceding year on the average residence homestead, disregarding exemptions. The District's debt service tax rate 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". 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, among other collection methods available, 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 homesteads as 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 cost of suit and sale, 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 (a taxpayer may redeem property within two (2) years for residential and agricultural property and within six (6) months for commercial 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. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS--Tax Collection Limitations".

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations solely of the District and are not obligations of Harris County, the City of Houston, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds and the Outstanding Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt, or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See “THE BONDS—Sources of Payment.” The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the District's obligation to collect sufficient taxes may be costly and lengthy processes. Furthermore, the District cannot and does not make any representations that construction of taxable improvements within the District will continue or that existing taxable improvements and land will maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property. See “Registered Owners' Remedies and Bankruptcy Limitations” below.

Recent Extreme Weather Events; Hurricane Harvey

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

According to Benchmark Engineering Corp. (the "Engineer"), the District's System (as defined herein) did not sustain any material damage and there was no interruption of water and sewer service, as a result of Hurricane Harvey. Approximately 50 homes and 3 businesses within the District experienced structural flooding or other material 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 in the District’s tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

Specific Flood Type Risks

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

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of commercial tracts and of developed lots which are currently being marketed by the developers for sale to homebuilders for the construction of residences. The market value of such development is related to general economic conditions in the Houston region and the national economy. The demand for commercial tracts and lots and the construction of taxable improvements 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 lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See “STATUS OF DEVELOPMENT IN THE DISTRICT.”

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 17 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and decline in the nation’s economic condition could adversely affect development and home-building plans in the District and restrain the growth of or reduce the value of the District’s property tax base.

Competition

The demand for and construction of single-family homes in the District, which is 17 miles from downtown Houston, could be affected by competition from other residential developments including other residential developments located in the northeastern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the developers in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of commercial and of multi-family properties of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District. The District can give no assurance that building and marketing programs in the District by the developers will be implemented or, if implemented, will be successful.

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 owners of property within the District to pay their taxes. The 2018 Certified Taxable Assessed Valuation is \$513,890,360. See “SELECTED FINANCIAL INFORMATION”. After issuance of the Bonds, the maximum annual debt service requirement will be \$3,578,369 (2020), and the average annual debt service requirement will be \$2,829,809 (2019-2043). Assuming no increase or decrease from the 2018 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.74 and \$0.58 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual and the average annual debt service requirements (see “DEBT SERVICE REQUIREMENTS”), respectively. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Remaining Outstanding Bonds based upon the 2018 Certified Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. The District makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners. See “TAX DATA—Tax Adequacy for Debt Service.”

Dependence on Principal Taxpayers

The ten principal taxpayers represent \$120,903,331 or approximately 23.53% of the 2018 Certified Taxable Assessed Valuation of \$513,890,360, which represents certified ownership as of January 1, 2018. See “TAX DATA—Principal Taxpayers” and “THE DEVELOPERS”. 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 a higher tax rate or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Order, 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.

Landowners/Developers Obligation to the District

There are no commitments from or obligations of the developers or any landowner to the District 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 lots or 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 continued development of taxable property within the District will increase or maintain its taxable value.

Future Debt

The District has reserved in the Bond Order the right to issue obligations other than the Bonds and the Remaining Outstanding Bonds, including tax anticipation notes, bond anticipation notes, and to borrow for any valid corporate purpose. Voters within the District have authorized the issuance of \$58,780,000 principal amount of unlimited tax and revenue bonds for the purpose of constructing, acquiring, owning, leasing, operating, repairing or extending facilities for a surface water, waterworks, sewer and drainage system, of which \$2,000,000 will remain authorized but unissued after issuance of the Bonds. The future issuance of additional obligations may adversely affect the security for the Bonds and the investment quality and value of the Bonds. The District does not employ any formula with respect to assessed valuation or tax collections and does not otherwise limit the amount of additional bonds or other obligations which may be issued. The issuance of additional unlimited tax and revenue bonds (other than refunding bonds), if any, however, is subject to approval by the Commission under guidelines of feasibility established by the Commission. See “THE BONDS--Authority for Issuance and Issuance of Additional Debt” and “THE DISTRICT—General.”

With the consent of the District, Interland, SSR-185 Investments, Ltd., Timberhills, Ltd., Lando, JNC Development and The Standard on the Creek LP have financed and, subject to certain conditions, are entitled to be reimbursed for the design and construction of certain water, sanitary sewer and drainage facilities to serve Sunset Ridge, Sunset Ridge West Eagle Creek, Fall Creek and The Standard on the Creek plus interest to the extent permitted by the Commission. The cost of such facilities is approximately \$13,270,000. The District currently has \$2,000,000 in authorized but unissued unlimited tax and revenue bonds, which is not sufficient to fully reimburse the developers for funds expended on behalf of the District. The District anticipates using approximately \$1,500,000 from its Operating Account to reimburse developers. It is anticipated that additional bonds will be issued in the future. In addition, surplus operating funds will be used to reimburse these developers for water, sanitary sewer and drainage facilities and to finance water, sewer and drainage facilities to serve the remaining undeveloped acreage within the District as well as additionally required wastewater treatment plant capacity and/or water plant or surface water capacity, if any. The District can make no representation that any additional development will occur within the District.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by an 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 judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by cumbersome, time-consuming and expensive collection procedures or market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “ESTIMATED OVERLAPPING DEBT STATEMENT”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem homestead and agricultural use property within two years of foreclosure and other types of property within six months after foreclosure). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed 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 “TAXING 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 Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Order. Except for mandamus, the Bond Order 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 Order 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.

Environmental Regulation and Air Quality

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.

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. 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.

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has entered into an agreement with ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

The long-term ratings on the Bonds are dependent in part on the financial strength of the insurer (the “Insurer”) and its claims paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance 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.

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 Underwriter have 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.

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign a municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. S&P has also assigned an underlying rating of "BBB+" to the Bonds. An explanation of the ratings may be obtained from the company furnishing each rating.

The rating reflects only the view of such organizations and the District makes no representation as to the appropriateness of the rating. There is no assurance that such ratings will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

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, 2018.

Capitalization of AGM

At December 31, 2018:

- The policyholders' surplus of AGM was approximately \$2.533 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,034 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 \$1,873 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019).

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."

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied without limitation as to rate or amount upon all taxable property in the District. The District also will furnish the approving legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District (“Bond Counsel”), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from the levy of ad valorem taxes, without legal limit as to rate or amount, upon all taxable property located within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application affecting rights of creditors of political subdivisions such as the District or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel’s opinion will also state that, as a result of the deposit of cash with the Escrow Agent pursuant to the Escrow Agreement, firm banking arrangements will have been made for the payment of the Refunded Bonds pursuant to the Escrow Agreement and that, therefore, the Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor under such Escrow Agreement. Bond Counsel will express no opinion with respect to the sufficiency of the security for or marketability of the Bonds.

Legal Review

In its capacity as Bond Counsel, Smith, Murdaugh Little & Bonham, L.L.P. has reviewed the information appearing in this Official Statement under the captions “PLAN OF FINANCING—Refunded Bonds”, “—Escrow Agreement,” and “— Defeasance of Refunded Bonds”, (but only insofar as such section relates to the legal opinion of Bond Counsel), “THE BONDS” (except Book-Entry-Only System), “THE DISTRICT—General,” “MANAGEMENT OF THE DISTRICT— Bond Counsel/Attorney,” “TAXING PROCEDURES,” “LEGAL MATTERS—Legal Opinions,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm 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 such firm’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein. 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 contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

No Material Adverse Change

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof, and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District’s federal tax certificate, and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

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

Federal Income Tax Accounting Treatment of Original Discount Bonds

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

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

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

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

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

Federal Income Tax Accounting Treatment of Premium Bonds

The initial public offering price of certain Bonds (the "Premium Bonds") is greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

Collateral Federal Income Tax Consequences

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

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

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

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

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

Future and Proposed Legislation

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

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for "qualified tax-exempt obligations," which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as "qualified tax-exempt obligations" and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2018 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2019.

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the Issuer, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Government Obligations, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds (b) the mathematical computations of yield used by Special Tax Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes and (c) the mathematical computations related to certain requirements of the City of Houston Ordinance No. 97-416, as amended.

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

PREPARATION OF OFFICIAL 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 Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District to such effect 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

Masterson 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, Masterson 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 summaries of the Bond Order, District contracts and provisions of state and federal law contained under the captions "THE BONDS (except for "Book-Entry Only System")," "THE DISTRICT--General," "TAXING PROCEDURES," "LEGAL MATTERS" and "TAX MATTERS"—Smith, Murdaugh, Little & Bonham, L.L.P.; "STATUS OF DEVELOPMENT IN THE DISTRICT" and "THE SYSTEM"—Benchmark Engineering Corporation and TNG; "SELECTED FINANCIAL INFORMATION," "ESTIMATED OVERLAPPING DEBT STATEMENT" and "TAX DATA"—Harris County Appraisal District, BLICO, and the Municipal Advisory Council of Texas.

The Financial Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its 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.

Appraisal District: The information contained in this OFFICIAL STATEMENT relating to the 2018 Certified Taxable Assessed Valuation has been provided by the Harris County Appraisal District and has been included herein in reliance upon the authority of such entity as an expert in appraising 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 District's assessed value particularly the sections entitled "TAX DATA—Historical Tax Collections—Tax Roll Information—Principal Taxpayers" has been provided by BLICO and is included herein in reliance upon the authority of such entity as an expert in assessing and collecting taxes.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the District's water and sewer system and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Benchmark Engineering Corporation, and has been included herein in reliance upon the authority of said firm as an expert in the field of civil engineering.

Auditor: The District's audited financial statements for the year ended June 30, 2018, were prepared by McCall Gibson Swedlund & Barfoot, PLLC and have been included herein as "APPENDIX A." McCall Gibson Swedlund & Barfoot, PLLC has authorized the use of these financial statements in conjunction with the sale of the Bonds as they appear in "APPENDIX A."

Updating the Official Statement

The District will keep the OFFICIAL STATEMENT current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information comes to its attention, to the other matters described in the OFFICIAL STATEMENT, until the delivery of the Bonds to the Underwriter, or as otherwise required by law. The District assumes no responsibility for supplementing the OFFICIAL STATEMENT thereafter.

Certification of Official Statement

The District, acting through its Board 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 the 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 makes no other representation as to the accuracy or completeness of the information derived from sources other than the District.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, 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 specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available to the public without charge through its Electronic Municipal Market Access ("EMMA") internet portal at www.emma.msrb.org.

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. 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 "FINANCIAL STATEMENT," "TAX DATA" (except for the subsection entitled "Tax Adequacy for Debt Service"), "THE SYSTEM," and "WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT" (most of which information is contained in the District's annual audit report) 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 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 by the required time, 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 Order 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.

Specified Event Notices

The District will provide timely notices of certain events to the MSRB via EMMA, 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; (13) consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, 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 of the District or an obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or an obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or an obligated person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB in an electronic format and accompanied by identifying information as prescribed by the MSRB Board. The MSRB makes the information available to the public without charge through its 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 holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such Rule or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. 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 reason 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

The District has previously made continuing disclosure agreements in accordance with SEC Rule 15c2-12 and in the past five years has been in compliance with such agreements with one exception: The District failed to provide timely update of the subsection titled "Tax Adequacy for Debt Service" in its 2015 annual report. An event filing was subsequently made.

MISCELLANEOUS

All estimates, statements and assumptions in this Official Statement and the Appendix 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. 49 as of the date shown on the cover page.

/s/ August J. Nunez
President, Board of Directors
Harris County Municipal Utility District No. 49

ATTEST:

/s/ Kermit D. Fisher
Secretary, Board of Directors
Harris County Municipal Utility
District No. 49

APPENDIX A

District Audited Financial Statements for the fiscal year ended June 30, 2018

The information contained in this appendix includes the Audited Financial Statements of Harris County Municipal Utility District No. 49 and certain supplemental information for the fiscal year ended June 30, 2018.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal Utility District No. 49
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. 49 (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

October 25, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2018

Management's discussion and analysis of Harris County Municipal Utility District No. 49's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets and deferred outflows of resources by \$478,847 as of June 30, 2018.

A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services.

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2018</u>	<u>2017</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 18,233,367	\$ 16,279,994	\$ 1,953,373
Capital Assets (Net of Accumulated Depreciation)	<u>38,874,528</u>	<u>34,571,174</u>	<u>4,303,354</u>
Total Assets	<u>\$ 57,107,895</u>	<u>\$ 50,851,168</u>	<u>\$ 6,256,727</u>
Deferred Outflows of Resources	<u>\$ 693,188</u>	<u>\$ 750,190</u>	<u>\$ (57,002)</u>
Due to Developer	\$ 16,221,585	\$ 14,312,305	\$ (1,909,280)
Long -Term Liabilities	39,663,258	30,423,844	(9,239,414)
Other Liabilities	<u>2,395,087</u>	<u>8,222,705</u>	<u>5,827,618</u>
Total Liabilities	<u>\$ 58,279,930</u>	<u>\$ 52,958,854</u>	<u>\$ (5,321,076)</u>
Net Position:			
Net Investment in Capital Assets	\$ (10,918,731)	\$ (10,048,856)	\$ (869,875)
Restricted	4,756,720	4,366,607	390,113
Unrestricted	<u>5,683,164</u>	<u>4,324,753</u>	<u>1,358,411</u>
Total Net Position	<u>\$ (478,847)</u>	<u>\$ (1,357,496)</u>	<u>\$ 878,649</u>

The following table provides comparative analysis of the District's operations for the years ending June 30, 2018, and June 30, 2017. The District's net position increased by \$878,649.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2018</u>	<u>2017</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 3,836,232	\$ 3,344,408	\$ 491,824
Charges for Services	2,955,846	2,760,682	195,164
Other Revenues	<u>245,023</u>	<u>143,660</u>	<u>101,363</u>
Total Revenues	<u>\$ 7,037,101</u>	<u>\$ 6,248,750</u>	<u>\$ 788,351</u>
Expenses for Services	<u>6,158,452</u>	<u>5,368,671</u>	<u>(789,781)</u>
Change in Net Position	\$ 878,649	\$ 880,079	\$ (1,430)
Net Position, Beginning of Year	<u>(1,357,496)</u>	<u>(2,237,575)</u>	<u>880,079</u>
Net Position, End of Year	<u>\$ (478,847)</u>	<u>\$ (1,357,496)</u>	<u>\$ 878,649</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2018, were \$17,604,268, an increase of \$2,187,322 from the prior year.

The General Fund fund balance increased by \$1,240,629, primarily due to service revenues exceeding current year operating costs.

The Debt Service Fund fund balance increased by \$462,226, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance increased by \$484,467.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$593,326 more than budgeted revenues, primarily due to higher than anticipated service, tap and connection, and investment revenues. Actual expenditures were \$152,091 more than budgeted expenditures, primarily due to higher than anticipated costs across most categories, offset by lower than anticipated professional fees and capital expenditures.

CAPITAL ASSETS

The District's capital assets as of June 30, 2018, amount to \$38,874,528 (net of accumulated depreciation) and include land, buildings and equipment as well as the water, wastewater and drainage systems. Significant capital asset activity during the year included construction of water, sewer and drainage facilities for Sunset Ridge West, Sections 4 and 5, water, sewer and drainage facilities for Sunset Ridge, Sections 5 and 6, water, sewer and drainage facilities for Fall Creek, Sections 39, 40, 41, 42 and 43, water, sewer and drainage facilities for Sunset Ridge, Section 4 and Left Turn Lane along Woodland Hills Drive, Sunset Ridge West commercial tract, Sunset Ridge subdivision, Phase III, Sunset Ridge Phase 5 earth movement, Fall Creek East, Section 1, Sunset Ridge West, Sections 2 and 6, Sunset Ridge, Sections 7 and commercial, Proposed elevated splitter box, storm sewer and paving, and various other improvements.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

CAPITAL ASSETS (Continued)

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 268,310	\$ 268,310	\$
Construction in Progress		1,127,731	(1,127,731)
Capital Assets, Net of Accumulated Depreciation:			
Water System	7,398,123	7,162,896	235,227
Wastewater System	10,221,145	9,696,175	524,970
Drainage System	20,986,950	16,316,062	4,670,888
Total Net Capital Assets	\$ 38,874,528	\$ 34,571,174	\$ 4,303,354

LONG-TERM DEBT ACTIVITY

As of June 30, 2018, the District had total bond debt payable of \$41,160,000. The changes in the debt position of the District during the fiscal year ended June 30, 2018, are summarized as follows:

Bond Debt Payable, July 1, 2017	\$ 31,470,000
Add: Bond Sale - Series 2017	11,110,000
Less: Bond Principal Paid	1,420,000
Bond Debt Payable, June 30, 2018	\$ 41,160,000

The District's bonds have an underlying rating of "BBB+". The District's Series 2006 Bonds carry an insured rating of "AA" by virtue of bond insurance issued by Assured Guaranty Corporation. The Series 2014, 2014A Refunding and Series 2015 Refunding Bonds carry an "AA" rating by virtue of bond insurance issued by Build America Mutual. The Series 2017 Bonds carry an insurance rating of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation. The above ratings reflect all rating changes during the fiscal year ended June 30, 2018.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 49, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas 77019.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 427,241	\$ 255,739
Investments	5,416,440	4,793,781
Receivables:		
Property Taxes	10,201	55,726
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$5,000)	248,200	
Sales Tax	17,064	
Other	7,582	
Due from Other Funds	2,828	
Prepaid Costs	46,110	
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 6,175,666	\$ 5,105,246
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 6,175,666	\$ 5,105,246

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 5,355,353	\$ 6,038,333	\$	\$ 6,038,333
1,556,353	11,766,574		11,766,574
	65,927		65,927
		29,592	29,592
	248,200		248,200
	17,064		17,064
	7,582		7,582
	2,828	(2,828)	
	46,110	13,985	60,095
		268,310	268,310
		38,606,218	38,606,218
\$ 6,911,706	\$ 18,192,618	\$ 38,915,277	\$ 57,107,895
\$ -0-	\$ -0-	\$ 693,188	\$ 693,188
\$ 6,911,706	\$ 18,192,618	\$ 39,608,465	\$ 57,801,083

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2018

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 107,402	\$
Accrued Interest Payable		
Due to Other Governmental Units	39,243	
Due to Developers	6,000	
Due to Other Funds		2,328
Due to Taxpayers		9,298
Security Deposits	338,842	
Unearned Tap Revenue	15,000	
Long Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 506,487	\$ 11,626
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 10,201	\$ 55,726
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 46,110	\$
Restricted for Authorized Construction		
Restricted for Debt Service		5,037,894
Unassigned	5,612,868	
TOTAL FUND BALANCES	\$ 5,658,978	\$ 5,037,894
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 6,175,666	\$ 5,105,246
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 3,810	\$ 111,212	\$	\$ 111,212
		366,492	366,492
	39,243		39,243
	6,000	16,215,585	16,221,585
500	2,828	(2,828)	
	9,298		9,298
	338,842		338,842
	15,000		15,000
		1,515,000	1,515,000
		<u>39,663,258</u>	<u>39,663,258</u>
<u>\$ 4,310</u>	<u>\$ 522,423</u>	<u>\$ 57,757,507</u>	<u>\$ 58,279,930</u>
<u>\$ -0-</u>	<u>\$ 65,927</u>	<u>\$ (65,927)</u>	<u>\$ -0-</u>
\$	\$ 46,110	\$ (46,110)	\$
6,907,396	6,907,396	(6,907,396)	
	5,037,894	(5,037,894)	
	<u>5,612,868</u>	<u>(5,612,868)</u>	
<u>\$ 6,907,396</u>	<u>\$ 17,604,268</u>	<u>\$ (17,604,268)</u>	<u>\$ - 0 -</u>
<u>\$ 6,911,706</u>	<u>\$ 18,192,618</u>		
		\$ (10,918,731)	\$ (10,918,731)
		4,756,720	4,756,720
		<u>5,683,164</u>	<u>5,683,164</u>
		<u>\$ (478,847)</u>	<u>\$ (478,847)</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balances - Governmental Funds \$ 17,604,268

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

Prepaid bond insurance in governmental activities is not a current financial resource and, therefore, is not reported as an asset in the governmental funds. 13,985

Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. 693,188

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 38,874,528

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District. 95,519

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (16,215,585)	
Accrued Interest Payable	(366,492)	
Bonds Payable Within One Year	(1,515,000)	
Bonds Payable After One Year	<u>(39,663,258)</u>	<u>(57,760,335)</u>

Total Net Position - Governmental Activities \$ (478,847)

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 565,996	\$ 3,270,987
Water Service	1,060,011	
Wastewater Service	776,639	
Sales Tax Revenues	61,495	
Groundwater Reduction Fees	459,405	
Penalty and Interest	51,286	30,502
Tap Connection and Inspection Fees	512,693	
Investment Revenues	64,750	60,995
Miscellaneous Revenues	85,145	3,441
TOTAL REVENUES	\$ 3,637,420	\$ 3,365,925
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 89,892	\$ 6,573
Contracted Services	684,448	47,362
Purchased Water Service	463,456	
Utilities	140,054	
Repairs and Maintenance	454,756	
Depreciation		
Other	540,368	9,627
Capital Outlay	23,817	
Conveyance of Assets		
Debt Service:		
Bond Principal		1,420,000
Bond Interest		1,420,137
BAN Principal Payoff		
Bond Anticipation Note Interest		
Bond Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	\$ 2,396,791	\$ 2,903,699
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 1,240,629	\$ 462,226
OTHER FINANCING SOURCES (USES)		
Long-Term Debt Issued	\$	\$
Bond Discount		
TOTAL OTHER FINANCING SOURCES (USES)	\$ -0-	\$ -0-
NET CHANGE IN FUND BALANCES	\$ 1,240,629	\$ 462,226
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JULY 1, 2017	4,418,349	4,575,668
FUND BALANCES/NET POSITION - JUNE 30, 2018	\$ 5,658,978	\$ 5,037,894

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 3,836,983	\$ (751)	\$ 3,836,232
	1,060,011		1,060,011
	776,639		776,639
	61,495		61,495
	459,405		459,405
	81,788	3,815	85,603
	512,693		512,693
30,692	156,437		156,437
	88,586		88,586
<u>\$ 30,692</u>	<u>\$ 7,034,037</u>	<u>\$ 3,064</u>	<u>\$ 7,037,101</u>
\$ 191,537	\$ 288,002	\$ (120,000)	\$ 168,002
	731,810		731,810
	463,456		463,456
	140,054		140,054
	454,756		454,756
		1,153,535	1,153,535
30,162	580,157		580,157
3,647,497	3,671,314	(3,671,314)	
		120,821	120,821
	1,420,000	(1,420,000)	
	1,420,137	137,804	1,557,941
5,990,000	5,990,000	(5,990,000)	
1,507	1,507		1,507
786,413	786,413		786,413
<u>\$ 10,647,116</u>	<u>\$ 15,947,606</u>	<u>\$ (9,789,154)</u>	<u>\$ 6,158,452</u>
\$ (10,616,424)	\$ (8,913,569)	\$ 9,792,218	\$ 878,649
\$ 11,110,000	\$ 11,110,000	\$ (11,110,000)	\$
(9,109)	(9,109)	9,109	
<u>\$ 11,100,891</u>	<u>\$ 11,100,891</u>	<u>\$ (11,100,891)</u>	<u>\$ -0-</u>
\$ 484,467	\$ 2,187,322	\$ (2,187,322)	\$
		878,649	878,649
6,422,929	15,416,946	(16,774,442)	(1,357,496)
<u>\$ 6,907,396</u>	<u>\$ 17,604,268</u>	<u>\$ (18,083,115)</u>	<u>\$ (478,847)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Governmental Funds	\$ 2,187,322
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	(751)
Certain liabilities recorded as due in a prior year were paid in the current year with bond proceeds. These liabilities were recorded as an expense in the Statement of Activities in a prior year.	120,000
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	3,815
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(1,153,535)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	3,550,493
Governmental funds report bond discounts as other financing uses in the year paid. However, in the Statement of Net Position, discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.	9,109
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	1,420,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	(137,804)
Governmental funds report bond proceeds as other financing sources. Issued bonds, net the BAN payoff, increase long-term liabilities in the Statement of Net Position.	<u>(5,120,000)</u>
Change in Net Position - Governmental Activities	<u>\$ 878,649</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 49, located in Harris County, Texas (the “District”) was created effective June 19, 1973, by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapter 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on August 21, 1973, and the first bonds were sold on July 25, 1978.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether 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 statement as component units.

Financial Statement Presentation

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

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

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund – To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

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

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

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs, that extend the life of an asset, are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-40
All Other Equipment	3-20

Budgeting

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

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service determined that directors are considered to be “employees” for federal payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurements focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

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

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3. LONG-TERM DEBT

	<u>Series 2006</u>	<u>Series 2009</u>	<u>Series 2010</u>
Amount Outstanding - June 30, 2018	\$ 2,545,000	\$ 200,000	\$ 6,905,000
Interest Rates	4.00%	6.30%	3.75% - 4.65%
Maturity Dates – Serially Beginning/Ending	April 1, 2024/2028	April 1, 2019	April 1, 2019/2034
Interest Payment Dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable Dates	April 1, 2016*	April 1, 2018*	April 1, 2019*
		<u>Refunding Series 2014A</u>	<u>Refunding Series 2015</u>
	<u>Series 2014</u>		
Amount Outstanding - June 30, 2018	\$ 4,420,000	\$ 2,030,000	\$ 5,690,000
Interest Rates	4.00% - 6.00%	2.00% - 3.25%	3.00% - 4.00%
Maturity Dates – Serially Beginning/Ending	April 1, 2019/2037	April 1, 2019/2025	April 1, 2019/2032
Interest Payment Dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable Dates	April 1, 2021*	April 1, 2022*	April 1, 2023*
		<u>Series 2016</u>	<u>Series 2017</u>
Amount Outstanding – June 30, 2018		\$ 8,610,000	\$ 10,760,000
Interest Rates		2.00% - 3.50%	2.25% - 3.50%
Maturity Dates – Serially Beginning/Ending		April 1, 2019/2040	April 1, 2019/2041
Interest Payment Dates		October 1/April 1	October 1/April 1
Callable Dates		April 1, 2024*	April 1, 2024*

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3. LONG-TERM DEBT (Continued)

* In whole or in part, or any date thereafter at par plus unpaid accrued interest. Series 2010 term bonds maturing April 1, 2021, April 1, 2025, April 1, 2027, April 1, 2030, April 1, 2032, and April 1, 2034 are subject to mandatory sinking fund redemption on April 1, 2019, April 1, 2021, April 1, 2025, April 1, 2027, April 1, 2030, and April 1, 2032, respectively. Series 2014 term bonds maturing April 1, 2026, April 1, 2028, April 1, 2031, and April 1, 2033 are subject to mandatory sinking fund redemption beginning April 1, 2025, April 1, 2027, April 1, 2029, and April 1, 2032, respectively. Series 2016 term bonds maturing April 1, 2040 are subject to mandatory sinking fund redemption beginning April 1, 2037.

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2018:

	July 1, 2017	Additions	Retirements	June 30, 2018
Bonds Payable	\$ 31,470,000	\$ 11,110,000	\$ 1,420,000	\$ 41,160,000
Unamortized Discounts	(231,157)	(9,109)	(20,883)	(219,383)
Unamortized Premiums	255,001		17,360	237,641
Bonds Payable, Net	\$ 31,493,844	\$ 11,100,891	\$ 1,416,477	\$ 41,178,258
		Amount Due Within One Year		\$ 1,515,000
		Amount Due After One Year		39,663,258
		Bonds Payable, Net		\$ 41,178,258

The District has fully retired its \$2,400,000 Series 1978 Bonds which were issued from a \$12,500,000 authorization voted in 1977. The November 5, 2002, authorization of \$58,780,000 supercedes all previous bond authorizations. The District has additional authorized but unissued tax bonds totaling \$11,320,000 and authorized but unissued refunding bonds totaling \$3,836,767.

As of June 30, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 1,515,000	\$ 1,465,970	\$ 2,980,970
2020	1,570,000	1,416,570	2,986,570
2021	1,605,000	1,371,828	2,976,828
2022	1,650,000	1,324,155	2,974,155
2023	1,695,000	1,276,094	2,971,094
2024-2028	9,425,000	5,517,383	14,942,383
2029-2033	10,460,000	3,721,077	14,181,077
2034-2038	9,760,000	1,627,501	11,387,501
2039-2041	3,480,000	222,600	3,702,600
	\$ 41,160,000	\$ 17,943,178	\$ 59,103,178

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3. LONG-TERM DEBT (Continued)

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The bonds are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's water and wastewater system. During the year ended June 30, 2018, the District levied an ad valorem debt service tax rate of \$0.75 per \$100 of assessed valuation, which resulted in a tax levy of \$3,323,459 on the adjusted taxable valuation of \$443,127,927 for the 2017 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

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

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

- A. The District has covenanted in its bond orders to provide continuing disclosure of certain general financial information and operating data, and notices of certain events, to the Municipal Securities Rulemaking Board and the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.
- B. The bond orders state that so long as any of the bonds remain outstanding, the District covenants that it will maintain and operate the system and maintain casualty loss and other insurance on the system of a kind and in such amounts customarily carried on similar systems by municipal utility districts in the State of Texas.
- C. The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five year anniversary of the issue.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits was \$6,038,333 and the bank balance was \$6,253,683. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2018, as listed below:

	Cash
GENERAL FUND	\$ 427,241
DEBT SERVICE FUND	255,739
CAPITAL PROJECTS FUND	5,355,353
TOTAL DEPOSITS	\$ 6,038,333

Investments

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

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

The District also invested in Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool's administrator and investment advisor and Wells Fargo Bank, N.A., serves as the custodian for the pool. Texas CLASS is subject to the general supervision of the Board of Trustees and its Advisory Board, both of which are elected by the Texas CLASS participants. The fair value of the District's position in the pool is the same as the value of pool shares.

As of June 30, 2018, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$ 5,021,243	\$ 5,021,243	\$	\$	\$
MBIA Texas CLASS	395,197	395,197			
<u>DEBT SERVICE FUND</u>					
TexPool	4,289,934	4,289,934			
MBIA Texas CLASS	503,847	503,847			
<u>CAPITAL PROJECTS FUND</u>					
TexPool	1,499,549	1,499,549			
MBIA Texas CLASS	56,804	56,804			
TOTAL INVESTMENTS	<u>\$ 11,766,574</u>	<u>\$ 11,766,574</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2018, the District's investments in TexPool and MBIA Texas CLASS were rated AAAM by Standard and Poor's.

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

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018:

	July 1, 2017	Increases	Decreases	June 30, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 268,310	\$	\$	\$ 268,310
Construction in Progress	<u>1,127,731</u>	<u>5,468,445</u>	<u>6,596,176</u>	<u></u>
Total Capital Assets Not Being Depreciated	<u>\$ 1,396,041</u>	<u>\$ 5,468,445</u>	<u>\$ 6,596,176</u>	<u>\$ 268,310</u>
Capital Assets Subject to Depreciation				
Water System	\$ 9,652,142	\$ 467,525	\$ 16,888	\$ 10,119,667
Wastewater System	13,075,302	927,248	16,888	13,985,662
Drainage System	<u>20,326,566</u>	<u>5,201,403</u>	<u></u>	<u>25,527,969</u>
Total Capital Assets Subject to Depreciation	<u>\$ 43,054,010</u>	<u>\$ 6,596,176</u>	<u>\$ 16,888</u>	<u>\$ 49,633,298</u>
Accumulated Depreciation				
Water System	\$ 2,489,246	\$ 232,298	\$	\$ 2,721,544
Wastewater System	3,379,127	390,722	5,332	3,764,517
Drainage System	<u>4,010,504</u>	<u>530,515</u>	<u></u>	<u>4,541,019</u>
Total Accumulated Depreciation	<u>\$ 9,878,877</u>	<u>\$ 1,153,535</u>	<u>\$ 5,332</u>	<u>\$ 11,027,080</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 33,175,133</u>	<u>\$ 5,442,641</u>	<u>\$ 11,556</u>	<u>\$ 38,606,218</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 34,571,174</u>	<u>\$ 10,911,086</u>	<u>\$ 6,607,732</u>	<u>\$ 38,874,528</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7. MAINTENANCE TAX

On August 13, 1977, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.20 per \$100 of assessed valuation of taxable property within the District. On April 5, 1986, voters increased the ceiling on maintenance taxes to \$0.35 per \$100 of assessed valuation. During the fiscal year ended June 30, 2018, the District levied an ad valorem maintenance tax rate of \$0.13 per \$100 of assessed valuation, which resulted in a tax levy of \$576,066 on the adjusted taxable valuation of \$443,127,927 for the 2017 tax year.

NOTE 8. DUE TO DEVELOPERS

The District has executed developer financing agreements with Developers within the District. The agreements call for the Developers to fund costs associated with water, sewer, and drainage facilities until such time as the District can sell bonds. As reflected in the Statement of Net Position, \$16,215,585 has been recorded as a liability for facilities financed by Developers which the District now operates and maintains and for monies advanced to the District for construction costs to be paid directly by the District. Reimbursements to the Developers will come from future bond sales.

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 10. CITY OF HOUSTON WATER SUPPLY AND GROUNDWATER
REDUCTION PLAN WHOLESALE AGREEMENT**

On July 11, 2003, the District entered into a City of Houston Water Supply and Groundwater Reduction Plan Wholesale Agreement for Regulatory Area 3 of the Harris-Galveston Subsidence District (the "Agreement") with the City of Houston, Texas (the "City"). Under the terms of the Agreement, the City is responsible for the design, construction and operation of a project to achieve regulatory compliance with the Harris-Galveston Subsidence District's (the "Subsidence District") requirements to reduce the total amount of groundwater withdrawn by non-exempt Area 3 pumps of groundwater from wells. The Subsidence District's deadlines are as follows: January 2005 for commencement of construction of the initial phase; January 2010 deadline for reduction of groundwater withdrawals such that the City and participants, including the District, have a total withdrawal of groundwater of no more than 70% of overall demand, and subsequent deadlines in 2025 and 2035 for further reduction of groundwater withdrawals.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

**NOTE 10. CITY OF HOUSTON WATER SUPPLY AND GROUNDWATER
REDUCTION PLAN WHOLESALE AGREEMENT (Continued)**

The District began taking water under the Agreement in October, 2008. The City will determine the minimum amount of water to be taken and establish maximum peak rates of flow. Purchased water costs totaled \$463,456 during the current fiscal year.

The City has developed a Groundwater Reduction Plan (“GRP”) for itself, the District and all other entities who execute a similar agreement with the City. The GRP is based upon the project to supply treated water from alternative sources and includes a plan for co-permitting all groundwater wells owned or controlled by the other participants in accordance with requirements of the Subsidence District. The City and District agree to cooperate to allow co-permitting of their wells under the Subsidence District’s rules as provided in the GRP. The payment commencement date for the District, under the agreement, is based on the renewal dates of the District’s Subsidence District withdrawal permit on or after 2003 or the date on which delivery of treated water to the District commences if such date is earlier. The payment amount is calculated by formulas which are specified in the Agreement based on whether the District has connected to the project or not, as well as quantity of groundwater pumped by the District, and the base GRP Rate per thousand gallons as set by City ordinance. The term of the Agreement extends until noon on December 31, 2040, unless sooner terminated pursuant to the terms of the Agreement.

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT

On December 12, 2008, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas. In accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City has annexed certain land within the District (the Subject Tract) for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Subject Tract. The District continues to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District.

No taxable property within the Subject Tract shall be liable for any present or future debts of the City, and current and future taxes levied by the City shall not be levied on taxable property within the District. Provisions of the Regulatory Plan adopted by the City are applicable to the Subject Tract of land within the District. The District’s assets, liabilities, indebtedness, and obligations will remain the responsibility of the District during the period preceding full-purpose annexation. If the Subject Tract is annexed for limited purposes by the City, the qualified voters of the Subject Tract may vote in City elections pursuant to Local Government Code. The City is responsible for notifying the voters within the Subject Tract.

The City imposed a Sales and Use Tax within the boundaries of the Subject Tract upon the limited-purpose annexation of the Subject Tract. The Sales and Use Tax is imposed on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City agreed to pay to the District an amount equal to one-half of all Sales and Use Tax revenues generated within

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT (Continued)

the boundaries of the Subject Tract. The City agreed to deliver to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Controller's office. The City agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date of the Agreement. During the current year, the District received \$61,495 under this Agreement.

NOTE 12. INTERFUND LIABILITIES

As of June 30, 2018, the District recorded an interfund payable of \$2,328 due from the Debt Service Fund to the General Fund for of maintenance tax revenues. The District recorded an interfund payable of \$500 due from the Capital Projects Fund to the General Fund for costs associated with storm sewer improvements at the sewer treatment plant site.

NOTE 13. EMERGENCY WATER SUPPLY CONTRACT

On April 22, 2010, the District executed an emergency water supply contract with Harris County Water Control and Improvement District No. 96 ("District No. 96"). The contract provides that each district will construct a water line to the point of interconnect. Each district will be responsible for the construction of the water line on their respective sides of the point of interconnect. The District will pay for the construction of the interconnect facilities. The price to be paid for water delivered shall be billed at the cost to the supplying party for surface water. The term of the agreement is for 50 years.

NOTE 14. WATER SUPPLY CONTRACT

On April 25, 2013, the District executed an interim water supply agreement with Harris County Municipal Utility District No. 400 ("District No. 400"). The District will supply water service to a portion of District No. 400 immediately adjacent to the District which includes the Humble Independent School District elementary project currently under construction. The District is only to provide water service during the time that District No. 400 designs, and constructs the District No. 400 water system, anticipated to complete December 31, 2013. The District will provide up to 6,800 gallons per day average daily flow. Water will be billed at three times the District's commercial in-district rate, including the City of Houston groundwater reduction plan fee. The term of the agreement was through December 31, 2013. On April 28, 2014, the District extended the interim water supply agreement with District No. 400. The term of this agreement was through December 31, 2014. On December 18, 2014, the District extended the interm water supply agreement with District No. 400 through April 30, 2015. On April 27, 2015, the District extended the interim water supply agreement with District No. 400. The term of the agreement was through July 31, 2015. On July 27, 2015, the District extended the interim water supply

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14. WATER SUPPLY CONTRACT (Continued)

agreement through October 31, 2015. On December 28, 2015, the District extended the interim water supply agreement through March 31, 2016. On March 28, 2016, the District extended the interim water supply agreement through June 30, 2016. On June 27, 2016, the District extended the interim water supply agreement through September 30, 2016. On September 26, 2016, the District extended the interim water supply agreement with the District No. 400. The term of the extension is through the completion of the District No. 400 water system, or October 31, 2016 unless otherwise extended.

On August 25, 2011, the District executed a water supply agreement with Harris County Water Control and Improvement District No. 96 (“District No. 96”). The agreement was amended by instrument executed February 7, 2012. Under the agreement, as amended, the District will provide water service for District No. 96’s park pavilion and restroom facilities, and to irrigate the park improvements, in exchange for use of the park improvements by District residents at no cost. The District will provide up to 5 domestic equivalent single family connections (ESFCs) of water and up to 91 ESFCs of irrigation water at 400 gallons per day per ESFC. Water will be billed at the District’s domestic (commercial) in-district rate.

District No. 96 is responsible for the construction of a public water line within the District to extend a District water line to the point of interconnect. District No. 96 is also responsible for construction of a water line within District No. 96 to the point of interconnect. District No. 96 may make no additional connection to the District’s water system without the District’s consent. District No 96 is responsible for maintenance costs of the public waterline extension within the District until development within the District requires service from the water line within the District and the District assumes maintenance responsibility for this line.

District No. 96 is authorized to construct three water taps and set three two-inch meters (one domestic and two irrigation). The District will own the domestic water meter and District No. 96 will pay the District’s costs for maintenance of the meter. District No. 96 will own and pay to maintain the irrigation water meters. The term of the agreement is through July 31, 2021, and will automatically renew for additional one-year terms unless terminated as provided in the agreement. The District and the District’s residents may continue to use the park improvements at no cost, even if the agreement is terminated. During the current year, the District billed charges under the agreement.

NOTE 15. SANITARY SEWER SERVICE CONTRACT

On February 7, 2012, the District executed a sanitary sewer service agreement with District No. 96. Under the agreement, the District will provide domestic wastewater service for District No. 96’s park pavilion and restroom facilities, in exchange for use of the park improvements by District residents at no cost. The District will provide up to 5 domestic equivalent single family connections (ESFCs) of wastewater service at 315 gallons per day per ESFC. Wastewater service will be billed at the District’s domestic (commercial) in-district rate.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15. SANITARY SEWER SERVICE CONTRACT (Continued)

District No. 96 is responsible for the construction of a private temporary sanitary sewer line within District No. 96 and the District to connect the park facility to a point of discharge on an existing District sanitary sewer line. District No 96 is responsible for maintenance of this sanitary sewer line. When development within the District requires it, the District will construct and maintain a public sanitary sewer line within the District to replace the temporary line, which must then be abandoned by District No. 96 at its sole cost.

The term of the agreement is through July 31, 2021, and will automatically renew for additional one-year terms unless terminated as provided in the agreement. The District and the District's residents may continue to use the park improvements at no cost, even if the agreement is terminated.

During the current year, the District billed charges under the agreement.

NOTE 16. ESCROW REQUIREMENT

In compliance with the order of the Commission dated October 5, 2015, the District escrowed \$1,598,503 (\$1,511,587 for construction and \$86,916 for contingencies) from the Series 2016 bonds for water plant no. 2, phase 1 pending the Commission's receipt of plans and specifications. As of June 30, 2018, all funds remain in escrow.

NOTE 17. BOND SALE

On July 6, 2017, the District closed on the sale of \$11,110,000 Series 2017 Unlimited Tax and Revenue Bonds. Proceeds from the bond sale were used to retire the \$5,990,000 Series 2016 BAN; reimburse developers for a portion of the costs associated with construction and engineering for water, wastewater and drainage facilities to serve Sunset Ridge, Section 4 and left turn lane along Woodland Hills Drive; Sunset Ridge Subdivision, Phase III; Sunset Ridge, Section 5 and 6; Sunset Ridge West Commercial Tract; Sunset Ridge West, Sections 5 and 6; Eagle Creek and Garners Bayou Improvements; Eagle Creek detention modification, Fall Creek, Sections 39 and 41; special structures lease payments; Eagle Creek Ditch Repair; and to pay for issuance costs of the BAN and bonds.

NOTE 18. SUBSEQUENT EVENT – BOND SALE

On August 23, 2018, subsequent to year-end, the District closed on the sale of its \$9,320,000 Series 2018 Unlimited Tax and Revenue Bonds. Proceeds from the bond sale, as well as surplus bond funds, were used to reimburse developers for a portion of the costs associated with construction and engineering for water, wastewater, and drainage facilities to serve Sunset Ridge West, Sections 2 and 6; Sunset Ridge, Section 7 and Sunset Ridge Commercial Access; Fall Creek, Sections 40, 42, 43, and 44; Fall Creek East, Section 1; earth movement and channel improvements Phase 5 serving SSR detention basin no. 1; water plant phase 1, and to pay for issuance costs of the bonds.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 632,694	\$ 565,996	\$ (66,698)
Water Service	900,000	1,060,011	160,011
Wastewater Service	700,000	776,639	76,639
Sales Tax Revenues	50,000	61,495	11,495
Groundwater Reduction Fees	420,000	459,405	39,405
Penalty and Interest	85,000	51,286	(33,714)
Tap Connection and Inspection Fees	158,400	512,693	354,293
Investment Revenues	20,000	64,750	44,750
Miscellaneous Revenues	78,000	85,145	7,145
TOTAL REVENUES	<u>\$ 3,044,094</u>	<u>\$ 3,637,420</u>	<u>\$ 593,326</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 103,000	\$ 89,892	\$ 13,108
Contracted Services	593,000	684,448	(91,448)
Purchased Water Service	440,000	463,456	(23,456)
Utilities	132,000	140,054	(8,054)
Repairs and Maintenance	440,000	454,756	(14,756)
Other	471,700	540,368	(68,668)
Capital Outlay	65,000	23,817	41,183
TOTAL EXPENDITURES	<u>\$ 2,244,700</u>	<u>\$ 2,396,791</u>	<u>\$ (152,091)</u>
NET CHANGE IN FUND BALANCE	\$ 799,394	\$ 1,240,629	\$ 441,235
FUND BALANCE - JULY 1, 2017	<u>4,418,349</u>	<u>4,418,349</u>	<u></u>
FUND BALANCE - JUNE 30, 2018	<u>\$ 5,217,743</u>	<u>\$ 5,658,978</u>	<u>\$ 441,235</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

JUNE 30, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2018

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective on April 26, 2018.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 20.00	5,000	N	\$ 2.07 \$ 2.58 \$ 3.30	5,001 to 7,000 7,001 to 9,000 9,001 and up
WASTEWATER	\$ 23.50	5,000	N	\$ 0.40	5,001 and up
SURCHARGE:					
Commission					
Regulatory Assessments	0.5% of water and sewer charges				
Groundwater Reduction Fees			N	\$ 2.35	1,000 and up
District employs winter averaging for wastewater usage?					_____ <u>X</u> Yes No

Total monthly charges per 10,000 gallons usage: Water: \$32.61 Wastewater: \$25.50 Surcharge: \$23.79 Total \$81.90

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2018

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	2,230	2,214	x 1.0	2,214
1"	9	9	x 2.5	23
1½"	8	8	x 5.0	40
2"	27	24	x 8.0	192
3"			x 15.0	
4"			x 25.0	
6"	3	3	x 50.0	150
8"	4	4	x 80.0	320
10"			x 115.0	
Total Water Connections	<u>2,281</u>	<u>2,262</u>		<u>2,939</u>
Total Wastewater Connections	<u>2,229</u>	<u>2,209</u>	x 1.0	<u>2,209</u>

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

Gallons pumped into system:	119,295,000	Water Accountability Ratio: 95.4% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	225,035,000	
Gallons purchased:	116,584,000	From: City of Houston, Texas
Gallons sold:	25,000	To: Harris Co. MUD No. 400

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2018

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ's in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2018

PROFESSIONAL FEES:	
Auditing	\$ 17,500
Legal	<u>72,392</u>
TOTAL PROFESSIONAL FEES	<u>\$ 89,892</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 463,456</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 16,150
Operations and Billing	<u>113,218</u>
TOTAL CONTRACTED SERVICES	<u>\$ 129,368</u>
UTILITIES:	
Electricity	\$ 127,641
Telephone	<u>12,413</u>
TOTAL UTILITIES	<u>\$ 140,054</u>
REPAIRS AND MAINTENANCE	<u>\$ 454,756</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 12,750
Election Costs	5,188
Insurance	24,607
Office Supplies and Postage	29,022
Payroll Taxes	975
Other	<u>28,071</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 100,613</u>
CAPITAL OUTLAY	<u>\$ 23,817</u>
TAP CONNECTIONS	<u>\$ 185,094</u>
SOLID WASTE DISPOSAL	<u>\$ 280,390</u>
SECURITY	<u>\$ 274,690</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2018

OTHER EXPENDITURES:	
Chemicals	\$ 82,052
Laboratory Fees	27,815
Permit Fees	10,721
Reconnection Fees	63,796
Inspection Fees	27,930
Regulatory Assessment	9,937
Sludge Hauling	<u>32,410</u>
TOTAL OTHER EXPENDITURES	<u>\$ 254,661</u>
TOTAL EXPENDITURES	<u><u>\$ 2,396,791</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
INVESTMENTS
JUNE 30, 2018

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexPool	XXXXXX0002	Varies	Daily	\$ 5,021,243	\$
MBIA Texas CLASS	XX-XXXX-0001	Varies	Daily	395,197	\$
TOTAL GENERAL FUND				<u>\$ 5,416,440</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXXXX0001	Varies	Daily	\$ 4,289,934	\$
MBIA Texas CLASS	XX-XXXX-0004	Varies	Daily	503,847	\$
TOTAL DEBT SERVICE FUND				<u>\$ 4,793,781</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXXXX0008	Varies	Daily	\$ 168,474	\$
TexPool	XXXXXX0005	Varies	Daily	419	\$
TexPool	XXXXXX0007	Varies	Daily	353,043	\$
TexPool	XXXXXX0009	Varies	Daily	423,363	\$
TexPool	XXXXXX0010	Varies	Daily	554,250	\$
MBIA Texas CLASS	XX-XXXX-0003	Varies	Daily	56,804	\$
TOTAL CAPITAL PROJECTS FUND				<u>\$ 1,556,353</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u>\$ 11,766,574</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JULY 1, 2017	\$	10,943	\$	55,735
Adjustments to Beginning				
Balance		<u>(10,812)</u>	\$	<u>(52,481)</u>
		\$	131	\$
			<u>(52,481)</u>	3,254
Original 2017 Tax Levy	\$	515,393	\$	2,973,420
Adjustment to 2017 Tax Levy		<u>60,673</u>	<u>576,066</u>	<u>350,039</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	576,197	\$
				3,326,713
TAX COLLECTIONS:				
Prior Years	\$	(4,696)	\$	(21,470)
Current Year		<u>570,692</u>	<u>565,996</u>	<u>3,292,457</u>
				<u>3,270,987</u>
TAXES RECEIVABLE -				
JUNE 30, 2018		<u>\$</u>	<u>10,201</u>	<u>\$</u>
				<u>55,726</u>
TAXES RECEIVABLE BY				
YEAR:				
2017	\$	5,374	\$	31,002
2016		2,722		13,608
2015		850		3,644
2014		307		2,178
2013		451		2,554
2012		285		1,617
2011		187		985
2010		19		105
2009		<u>6</u>		<u>33</u>
TOTAL	\$	<u>10,201</u>	\$	<u>55,726</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

	2017	2016	2015	2014
PROPERTY VALUATIONS:				
Land	\$ 94,314,772	\$ 85,594,299	\$ 81,395,043	\$ 72,497,333
Improvements	364,505,904	297,946,430	271,539,989	213,196,191
Personal Property	7,232,538	6,880,218	7,409,036	6,226,155
Exemptions	(22,925,287)	(18,088,251)	(28,837,271)	(17,827,732)
TOTAL PROPERTY VALUATIONS	\$ 443,127,927	\$ 372,332,696	\$ 331,506,797	\$ 274,091,947
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.75	\$ 0.75	\$ 0.750	\$ 0.85
Maintenance	0.13	0.15	0.175	0.12
TOTAL TAX RATES PER \$100 VALUATION	\$ 0.88	\$ 0.90	\$ 0.925	\$ 0.97
ADJUSTED TAX LEVY*	\$ 3,899,525	\$ 3,350,995	\$ 3,083,070	\$ 2,658,854
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	99.07 %	99.51 %	99.85 %	99.91 %

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

Maintenance Tax – Maximum tax rate of \$0.35 per \$100 of assessed valuation approved by voters on April 5, 1986.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

S E R I E S - 2 0 0 6			
Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October 1/ April 1	Total
2019	\$	\$ 101,800	\$ 101,800
2020		101,800	101,800
2021		101,800	101,800
2022		101,800	101,800
2023		101,800	101,800
2024	420,000	101,800	521,800
2025	445,000	85,000	530,000
2026	530,000	67,200	597,200
2027	560,000	46,000	606,000
2028	590,000	23,600	613,600
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	\$ 2,545,000	\$ 832,600	\$ 3,377,600

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

S E R I E S - 2 0 0 9			
Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October 1/ April 1	Total
2019	\$ 200,000	\$ 12,600	\$ 212,600
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	\$ 200,000	\$ 12,600	\$ 212,600

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

SERIES - 2010

Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October 1/ April 1	Total
2019	\$ 50,000	\$ 310,187	\$ 360,187
2020	50,000	308,188	358,188
2021	50,000	306,312	356,312
2022	50,000	304,438	354,438
2023	50,000	302,375	352,375
2024	50,000	300,313	350,313
2025	50,000	298,250	348,250
2026	350,000	296,188	646,188
2027	365,000	281,312	646,312
2028	380,000	265,800	645,800
2029	770,000	248,890	1,018,890
2030	825,000	214,625	1,039,625
2031	875,000	177,912	1,052,912
2032	935,000	138,100	1,073,100
2033	995,000	95,557	1,090,557
2034	1,060,000	49,290	1,109,290
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 6,905,000</u>	<u>\$ 3,897,737</u>	<u>\$ 10,802,737</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

S E R I E S - 2 0 1 4

Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October 1/ April 1	Total
2019	\$ 50,000	\$ 191,726	\$ 241,726
2020	50,000	188,725	238,725
2021	50,000	185,724	235,724
2022	50,000	182,725	232,725
2023	75,000	180,725	255,725
2024	75,000	177,725	252,725
2025	75,000	174,725	249,725
2026	75,000	171,725	246,725
2027	75,000	168,725	243,725
2028	75,000	165,725	240,725
2029	75,000	162,725	237,725
2030	150,000	159,631	309,631
2031	150,000	153,443	303,443
2032	150,000	147,256	297,256
2033	450,000	140,881	590,881
2034	465,000	121,756	586,756
2035	755,000	101,993	856,993
2036	775,000	69,906	844,906
2037	800,000	36,000	836,000
2038			
2039			
2040			
2041			
	<u>\$ 4,420,000</u>	<u>\$ 2,881,841</u>	<u>\$ 7,301,841</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

REFUNDING SERIES - 2014 A

Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October 1/ April 1	Total
2019	\$ 255,000	\$ 57,588	\$ 312,588
2020	265,000	52,488	317,488
2021	275,000	46,525	321,525
2022	285,000	38,275	323,275
2023	300,000	29,725	329,725
2024	320,000	20,725	340,725
2025	330,000	10,725	340,725
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 2,030,000</u>	<u>\$ 256,051</u>	<u>\$ 2,286,051</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

REFUNDING SERIES - 2015

Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October 1/ April 1	Total
2019	\$ 400,000	\$ 199,288	\$ 599,288
2020	630,000	187,288	817,288
2021	645,000	168,386	813,386
2022	665,000	149,036	814,036
2023	655,000	129,088	784,088
2024	255,000	107,800	362,800
2025	260,000	97,600	357,600
2026	285,000	87,200	372,200
2027	285,000	75,800	360,800
2028	295,000	64,400	359,400
2029	380,000	52,600	432,600
2030	285,000	37,400	322,400
2031	310,000	26,000	336,000
2032	340,000	13,600	353,600
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 5,690,000</u>	<u>\$ 1,395,486</u>	<u>\$ 7,085,486</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

SERIES - 2016

Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October 1 April 1	Total
2019	\$ 210,000	\$ 253,006	\$ 463,006
2020	225,000	248,806	473,806
2021	235,000	244,306	479,306
2022	250,000	239,606	489,606
2023	265,000	234,606	499,606
2024	275,000	229,306	504,306
2025	290,000	223,806	513,806
2026	305,000	217,644	522,644
2027	320,000	210,018	530,018
2028	340,000	202,019	542,019
2029	360,000	191,819	551,819
2030	380,000	181,019	561,019
2031	405,000	169,619	574,619
2032	425,000	157,469	582,469
2033	450,000	144,719	594,719
2034	475,000	130,656	605,656
2035	500,000	115,812	615,812
2036	525,000	100,188	625,188
2037	555,000	83,126	638,126
2038	590,000	63,700	653,700
2039	600,000	43,050	643,050
2040	630,000	22,050	652,050
2041			
	<u>\$ 8,610,000</u>	<u>\$ 3,706,350</u>	<u>\$ 12,316,350</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

SERIES - 2017

Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October 1 April 1	Total
2019	\$ 350,000	\$ 339,775	\$ 689,775
2020	350,000	329,275	679,275
2021	350,000	318,775	668,775
2022	350,000	308,275	658,275
2023	350,000	297,775	647,775
2024	350,000	287,276	637,276
2025	350,000	276,775	626,775
2026	350,000	268,900	618,900
2027	350,000	261,026	611,026
2028	350,000	252,275	602,275
2029	350,000	242,650	592,650
2030	350,000	232,150	582,150
2031	350,000	221,650	571,650
2032	350,000	211,150	561,150
2033	350,000	200,212	550,212
2034	350,000	189,274	539,274
2035	720,000	177,900	897,900
2036	720,000	153,600	873,600
2037	720,000	129,300	849,300
2038	750,000	105,000	855,000
2039	750,000	78,750	828,750
2040	750,000	52,500	802,500
2041	750,000	26,250	776,250
	<u>\$ 10,760,000</u>	<u>\$ 4,960,513</u>	<u>\$ 15,720,513</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 1,515,000	\$ 1,465,970	\$ 2,980,970
2020	1,570,000	1,416,570	2,986,570
2021	1,605,000	1,371,828	2,976,828
2022	1,650,000	1,324,155	2,974,155
2023	1,695,000	1,276,094	2,971,094
2024	1,745,000	1,224,945	2,969,945
2025	1,800,000	1,166,881	2,966,881
2026	1,895,000	1,108,857	3,003,857
2027	1,955,000	1,042,881	2,997,881
2028	2,030,000	973,819	3,003,819
2029	1,935,000	898,684	2,833,684
2030	1,990,000	824,825	2,814,825
2031	2,090,000	748,624	2,838,624
2032	2,200,000	667,575	2,867,575
2033	2,245,000	581,369	2,826,369
2034	2,350,000	490,976	2,840,976
2035	1,975,000	395,705	2,370,705
2036	2,020,000	323,694	2,343,694
2037	2,075,000	248,426	2,323,426
2038	1,340,000	168,700	1,508,700
2039	1,350,000	121,800	1,471,800
2040	1,380,000	74,550	1,454,550
2041	750,000	26,250	776,250
	<u>\$ 41,160,000</u>	<u>\$ 17,943,178</u>	<u>\$ 59,103,178</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JUNE 30, 2018

Description	Original Bonds Issued	Bonds Outstanding July 1, 2017
Harris County Municipal Utility District No. 49 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2006	\$ 6,945,000	\$ 2,850,000
Harris County Municipal Utility District No. 49 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2009	4,980,000	390,000
Harris County Municipal Utility District No. 49 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2010	7,205,000	6,955,000
Harris County Municipal Utility District No. 49 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2014	4,420,000	4,420,000
Harris County Municipal Utility District No. 49 Unlimited Tax Refunding Bonds - Series 2014A	2,785,000	2,280,000
Harris County Municipal Utility District No. 49 Unlimited Tax Refunding Bonds - Series 2015	5,940,000	5,765,000
Harris County Municipal Utility District No. 49 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2016	9,000,000	8,810,000
Harris County Municipal Utility District No. 49 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2017	<u>11,110,000</u>	
TOTAL	<u><u>\$ 52,385,000</u></u>	<u><u>\$ 31,470,000</u></u>

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding June 30, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 305,000	\$ 114,000	\$ 2,545,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	190,000	24,000	200,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	50,000	312,188	6,905,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
		191,726	4,420,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	250,000	62,588	2,030,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	75,000	200,788	5,690,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	200,000	257,006	8,610,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>11,110,000</u>	<u>350,000</u>	<u>257,841</u>	<u>10,760,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 11,110,000</u>	<u>\$ 1,420,000</u>	<u>\$ 1,420,137</u>	<u>\$ 41,160,000</u>	

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JUNE 30, 2018

Bond Authority:	<u>Tax Bonds*</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 58,780,000	\$ 5,000,000
Amount Issued	<u>47,460,000</u>	<u>1,163,233</u>
Remaining to be Issued	<u>\$ 11,320,000</u>	<u>\$ 3,836,767</u>

Debt Service Fund cash and investments balances as of
June 30, 2018: \$ 5,049,520

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 2,569,703

See Note 3 for interest rate, interest payment dates and maturity dates.

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 565,996	\$ 570,115	\$ 576,784
Water Service	1,060,011	906,371	876,209
Wastewater Service	776,639	717,259	628,201
Sales Tax Revenue	61,495	46,686	44,546
Groundwater Reduction Fees	459,405	451,580	402,131
Penalty and Interest	51,286	77,269	61,632
Tap Connection and Inspection Fees	512,693	520,929	267,030
Investment Revenues	64,750	22,736	7,436
Miscellaneous Revenues	85,145	85,128	78,566
TOTAL REVENUES	\$ 3,637,420	\$ 3,398,073	\$ 2,942,535
EXPENDITURES			
Professional Fees	\$ 89,892	\$ 89,031	\$ 82,145
Contracted Services	684,448	568,877	529,305
Purchased Water Service	463,456	408,964	390,622
Utilities	140,054	121,438	123,547
Repairs and Maintenance	454,756	458,382	314,659
Other	540,368	532,868	374,628
Capital Outlay	23,817	382,303	150,335
TOTAL EXPENDITURES	\$ 2,396,791	\$ 2,561,863	\$ 1,965,241
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 1,240,629	\$ 836,210	\$ 977,294
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ - 0 -	\$ 2,388	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 1,240,629	\$ 838,598	\$ 977,294
BEGINNING FUND BALANCE	4,418,349	3,579,751	2,602,457
ENDING FUND BALANCE	\$ 5,658,978	\$ 4,418,349	\$ 3,579,751

See accompanying independent auditor's report.

		Percentage of Total Revenue						
2015	2014	2018	2017	2016	2015	2014		
\$ 330,974	\$ 340,344	15.6 %	16.7 %	19.5 %	14.2 %	14.9 %		
772,921	781,434	29.1	26.7	29.8	32.9	34.2		
591,005	569,484	21.4	21.1	21.3	25.2	24.9		
39,798	31,812	1.7	1.4	1.5	1.7	1.4		
321,161	336,955	12.6	13.3	13.7	13.7	14.7		
54,586	71,747	1.4	2.3	2.1	2.3	3.1		
169,048	86,275	14.1	15.3	9.1	7.2	3.8		
1,365	883	1.8	0.7	0.3	0.1			
62,136	68,558	2.3	2.5	2.7	2.7	3.0		
<u>\$ 2,342,994</u>	<u>\$ 2,287,492</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>		
\$ 71,204	\$ 75,817	2.5 %	2.6 %	2.8 %	3.0 %	3.3 %		
504,437	488,103	18.8	16.7	18.0	21.5	21.3		
353,863	365,441	12.7	12.0	13.3	15.1	16.0		
125,121	111,054	3.9	3.6	4.2	5.3	4.9		
384,148	247,520	12.5	13.5	10.7	16.4	10.8		
340,373	351,379	14.9	15.7	12.7	14.5	15.4		
		0.7	11.3	5.1				
<u>\$ 1,779,146</u>	<u>\$ 1,639,314</u>	<u>66.0 %</u>	<u>75.4 %</u>	<u>66.8 %</u>	<u>75.8 %</u>	<u>71.7 %</u>		
\$ 563,848	\$ 648,178	34.0 %	24.6 %	33.2 %	24.2 %	28.3 %		
\$ - 0 -	\$ - 0 -							
\$ 563,848	\$ 648,178							
2,038,609	1,390,431							
<u>\$ 2,602,457</u>	<u>\$ 2,038,609</u>							

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 3,270,987	\$ 2,858,595	\$ 2,477,242
Penalty and Interest	30,502	36,975	17,640
Interest on Investments	60,995	22,419	8,435
Miscellaneous Revenues	3,441	326	300
TOTAL REVENUES	\$ 3,365,925	\$ 2,918,315	\$ 2,503,617
EXPENDITURES			
Tax Collection Expenditures	\$ 58,812	\$ 51,846	\$ 52,862
Debt Service Principal	1,420,000	1,025,000	835,000
Debt Service Interest and Fees	1,424,887	1,226,604	950,404
Bond Issuance Costs			
Payment to Refunded Bond Escrow Agent			
TOTAL EXPENDITURES	\$ 2,903,699	\$ 2,303,450	\$ 1,838,266
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 462,226	\$ 614,865	\$ 665,351
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	\$	\$	\$
Payment to Refunded Bond Escrow Agent			
Bond Premium			
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 462,226	\$ 614,865	\$ 665,351
BEGINNING FUND BALANCE	4,575,668	3,960,803	3,295,452
ENDING FUND BALANCE	\$ 5,037,894	\$ 4,575,668	\$ 3,960,803
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,262	1,999	1,784
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,209	1,984	1,770

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2015	2014	2018	2017	2016	2015	2014
\$ 2,337,291	\$ 1,928,502	97.2 %	97.9 %	99.0 %	98.6 %	99.4 %
23,836	9,955	0.9	1.3	0.7	1.0	0.5
1,588	1,210	1.8	0.8	0.3	0.1	0.1
6,599	50	0.1			0.3	
<u>\$ 2,369,314</u>	<u>\$ 1,939,717</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 46,649	\$ 34,058	1.7 %	1.8 %	2.1 %	2.0 %	1.8 %
695,000	635,000	42.2	35.1	33.4	29.3	32.7
1,155,799	956,233	42.3	42.0	38.0	48.8	49.3
213,547	120,702				9.0	6.2
	65,000					3.4
<u>\$ 2,110,995</u>	<u>\$ 1,810,993</u>	<u>86.2 %</u>	<u>78.9 %</u>	<u>73.5 %</u>	<u>89.1 %</u>	<u>93.4 %</u>
\$ 258,319	\$ 128,724	<u>13.8 %</u>	<u>21.1 %</u>	<u>26.5 %</u>	<u>10.9 %</u>	<u>6.6 %</u>
\$ 5,940,000	\$ 2,785,000					
(6,003,858)	(2,663,323)					
290,159	2,056					
<u>\$ 226,301</u>	<u>\$ 123,733</u>					
\$ 484,620	\$ 252,457					
2,810,832	2,558,375					
<u>\$ 3,295,452</u>	<u>\$ 2,810,832</u>					
<u>1,495</u>	<u>1,491</u>					
<u>1,466</u>	<u>1,462</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2018

District Mailing Address - Harris County Municipal Utility District No. 49
c/o Smith, Murdaugh, Little & Bonham, L.L.P.
2727 Allen Parkway, Suite 1100
Houston, TX 77019

District Telephone Number - (713) 652-6500

Board Members:	Term of Office (Elected or <u>Appointed</u>)	Fees of office for the year ended <u>June 30, 2018</u>	Expense reimbursements for the year ended <u>June 30, 2018</u>	<u>Title</u>
August J. Nunez	05/16 05/20 (Elected)	\$ -0-	\$ 2,881	President
John C. Wright	05/16 05/20 (Elected)	\$ 1,650	\$ 278	Vice President
Kermit D. Fisher	05/18 05/22 (Elected)	\$ 4,650	\$ 2,959	Secretary
Jude Auzenne	05/18 05/22 (Elected)	\$ 2,850	\$ 452	Assistant Secretary
Tim Reynolds	05/18 05/22 (Elected)	\$ 3,600	\$ 555	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
June 6, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 24, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 49
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2018

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended June 30, 2018</u>	<u>Title</u>
Smith, Murdaugh, Little & Bonham, L.L.P	08/21/73	\$ 77,579 \$ 288,419	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	06/25/87	\$ 17,500 \$ 8,900	Auditor Bond Related
Claudia Redden & Associates, Inc.	11/01/95	\$ 21,758	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	04/26/84	\$ 6,573	Delinquent Tax Attorney
Benchmark Engineering	11/18/04	\$ 348,869	Engineer
Claudia Redden	09/23/99	\$ -0-	Investment Officer
Hilltop Securities Inc.	12/05/02	\$ 229,473	Former Financial Advisor
Masterson Advisors LLC	04/26/18	\$ -0-	Financial Advisor
TNG Utility Corporation	04/01/10	\$ 731,458	Operator
Bob Leared Interests	10/28/77	\$ 21,324	Tax Assessor/ Collector

See accompanying independent auditor's 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