

OFFICIAL STATEMENT DATED FEBRUARY 19, 2019

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL AS TO THE VALIDITY OF THE BONDS AND TO THE EFFECT THAT INTEREST ON THE BONDS IS EXCLUDABLE FROM THE GROSS INCOME OF THE OWNERS OF THE BONDS FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER EXISTING STATUTES, REGULATIONS, PUBLISHED RULINGS, AND COURT DECISIONS, AND THAT THE BONDS ARE NOT SPECIFIED PRIVATE ACTIVITY BONDS. SEE "LEGAL MATTERS" AND "TAX MATTERS" HEREIN FOR A DISCUSSION OF BOND COUNSEL'S OPINION.

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

BOOK-ENTRY-ONLY

Insured Rating (BAM): S&P "AA" (stable outlook)
Underlying Rating: Moody's "A3"
See "MUNICIPAL BOND RATING" and
"MUNICIPAL BOND INSURANCE" herein.

\$5,270,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65 (A political subdivision of the State of Texas located within Harris County) UNLIMITED TAX REFUNDING BONDS SERIES 2019

Dated: March 1, 2019

Due: March 1, as shown below

Principal of the Bonds will be 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, National Association, Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from March 1, 2019 and will be payable on March 1 and September 1 of each year commencing September 1, 2019 (six 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 each or integral multiples thereof. The Bonds will be subject to redemption prior to their maturity, as shown below.

The Bonds will be registered and delivered only 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 (as defined herein under "BOOK-ENTRY-ONLY SYSTEM") of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. 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, as herein defined, directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. 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 BUILD AMERICA MUTUAL ASSURANCE COMPANY. See "MUNICIPAL BOND INSURANCE" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Due (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	\$ 35,000	4.000 %	1.850 %	414939 JZ2	2028	\$ 160,000 (c)	3.000 %	2.790 %	414939 KH0
2021	35,000	4.000	1.910	414939 KA5	2029	430,000 (c)	3.000	2.940	414939 KJ6
2022	35,000	4.000	1.980	414939 KB3	2030	475,000 (c)	3.000	3.100	414939 KK3
2023	35,000	2.000	2.070	414939 KC1	2031	495,000 (c)	3.000	3.200	414939 KL1
2024	40,000	2.000	2.210	414939 KD9	2032	805,000 (c)	3.000	3.250	414939 KM9
2025	140,000 (c)	3.000	2.380	414939 KE7	2033	790,000 (c)	3.125	3.340	414939 KN7
2026	135,000 (c)	3.000	2.510	414939 KF4	2034	770,000 (c)	3.250	3.390	414939 KP2
2027	135,000 (c)	3.000	2.650	414939 KG2	2035	755,000 (c)	3.250	3.430	414939 KQ0

- (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. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from March 1, 2019 is to be added to the price.
- (b) CUSIP Numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) The Bonds maturing on and after March 1, 2025 are subject to redemption prior to maturity at the option of the District, in whole or, from time to time in part, on March 1, 2024, 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."

The Bonds, when issued, will constitute valid and legally binding obligations of Harris County Municipal Utility District No. 65 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Young & Brooks, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., as Underwriter's Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about March 26, 2019.

SAMCO CAPITAL MARKETS, INC.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Young & Brooks, 10000 Memorial Drive, Suite 260, Houston, Texas, 77024 upon payment of the costs of duplication.

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

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

OFFICIAL STATEMENT SUMMARY

The following information 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 in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

THE FINANCING

The Issuer Harris County Municipal Utility District No. 65 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”

The Issue \$5,270,000 Harris County Municipal Utility District No. 65, Unlimited Tax Refunding Bonds, Series 2019, dated March 1, 2019, are issued pursuant to an order (the “Bond Order”) of the District’s Board of Directors. The Bonds will be issued as fully registered bonds maturing in the years and in the amounts and accruing interest at the rates shown on the cover hereof. Interest on the Bonds will accrue from March 1, 2019 and will be payable September 1 and March 1 of each year commencing September 1, 2019 (six months interest) until maturity or prior redemption and will be calculated on the basis of 360-day year consisting of twelve 30-day months.

The Bonds maturing on and after March 1, 2025 are subject to optional redemption, in whole or, from time to time, in part, on March 1, 2024, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. If fewer than all the Bonds are redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be selected by the District in integral multiples of \$5,000 in any one maturity. If fewer than all the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected by DTC in accordance with its procedures. See “BOOK-ENTRY-ONLY SYSTEM.” The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”

Book-Entry-Only The Bonds will be registered in the name of, 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. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC, 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.”

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

Use of Proceeds Proceeds from the sale of the Bonds, together with other lawfully available District funds, if any, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund and defease \$4,955,000 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.” After the issuance of the Bonds, \$16,415,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING—Refunded Bonds” and “—Sources and Uses of Funds.”

Payment Record The District has previously issued two series of unlimited tax and revenue bonds, seven series of unlimited tax bonds and three series of unlimited tax refunding bonds, of which an aggregate principal amount of \$21,370,000 is currently outstanding (the “Outstanding Bonds”). The District has never defaulted on the payment and principal and interest on the previously issued bonds. See “FINANCIAL STATEMENT.”

Qualified Tax-Exempt Obligations In the Bond Order, the District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”

Bond CounselYoung & Brooks, Bond Counsel, Houston, Texas.

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

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

Paying Agent/Registrar.....The Bank of New York Mellon Trust Company, National Association, Dallas, Texas.

Verification Agent.....Public Finance Partners LLC, Minneapolis, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

Municipal Bond Insurance and RatingIt 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 Build America Mutual Assurance Company (“BAM” or the “Insurer”). The Bonds also have been assigned an underlying credit rating of “A3” by Moody’s Investors Service, Inc. (“Moody’s”) without regard to credit enhancement. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” and “APPENDIX B.”

THE DISTRICT

Description.....The District is a political subdivision of the State of Texas located in Harris County approximately 25 miles west of the central business district of the City of Houston, Texas. The District contains approximately 517 acres of land, all of which are within the exclusive extraterritorial jurisdiction of the City of Houston and within the Katy Independent School District. The District is bounded on the south by Franz Road and bisected by Porter Road.

Recent Extreme Weather Events; Hurricane Harvey.....The Houston area, including the District, including the District, is subject to occasional severe tropical 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. However, according to the District’s Operator, the District’s System did not sustain any material damage and there was no interruption of water and sewer service. According to the District’s Operator, after investigation, it appeared that approximately 200 out of approximately 1,800 homes within the District experienced water incursions or other significant damage. In addition, to the knowledge of the District, no commercial improvements within the District experienced structural flooding or other damage as a result of Hurricane Harvey. See “THE SYSTEM.”

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

Status of DevelopmentWithin the District approximately 370 acres have been developed for single family residential purposes and approximately 64 commercial acres are served with trunk facilities. The District also has 55 acres of land in easements, plant sites, recreational facilities and rights-of-way and 28 acres of developable, but undeveloped land. Recreational amenities within the District include a recreation site with a swimming pool and a basketball court.

Single family residential development includes Williamsburg Parish, Sections One and Three through Eleven, Lakecrest Village, Sections One through Five, Lakecrest Forest, Sections One through Nine, Lakecrest Park, Sections One through Three, and Katy Oaks, Sections One through Three (collectively containing approximately 1,873 single family residential lots on approximately 370 acres). Anglia Homes is currently building homes in the District. New homes are being offered for sale at prices ranging from \$120,000 to \$300,000. Values of houses in the older sections are on the tax rolls of the District for the 2018 tax year averaging from approximately \$100,000 to \$300,000. As of January 9, 2019, the District contained approximately 1,834 occupied single-family homes, 20 homes under construction, 13 unoccupied single-family homes and 6 vacant developed lots. See “THE DISTRICT—Status of Development.”

Augment Corporation is the owner of approximately 15 acres of developable but undeveloped land in the District and Franz Katy LLP is the owner of approximately 8 acres of developable but undeveloped land. Neither party has reported any development plans at this time.

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds are subject to special investment risks, and all prospective purchasers are urged to examine carefully the entire Official Statement with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION

2018 Taxable Assessed Valuation.....	\$397,328,188 (a)
Gross Direct Debt Outstanding	\$21,685,000 (b)
Estimated Overlapping Debt	<u>20,531,541</u>
Gross Direct Debt and Estimated Overlapping Debt.....	<u>\$42,216,541</u>
Ratios of Gross Direct Debt to:	
2018 Taxable Assessed Valuation.....	5.46%
Ratios of Gross Direct and Estimated Overlapping Debt to:	
2018 Taxable Assessed Valuation.....	10.63%
2018 Debt Service Tax Rate	\$0.44
2018 Maintenance Tax Rate.....	<u>0.20</u>
Total	<u>\$0.64</u>
Average percentage of total tax collections (2013-2017).....	99.66%
Average Annual Debt Service Requirement (2019-2036).....	\$1,567,412 (c)
Tax Rate Required to Pay Average Annual Debt Service (2019-2036) at a 95% Collection Rate	
Based upon 2018 Taxable Assessed Valuation	\$0.42
Maximum Annual Debt Service Requirement (2019).....	\$1,810,929 (c)
Tax Rate Required to Pay Maximum Annual Debt Service (2019) at a 95% Collection Rate	
Based upon 2018 Taxable Assessed Valuation	\$0.48
Status of Water Connections as of January 9, 2019 (d):	
Single family - occupied.....	1,834
Single family – unoccupied.....	13
Builder connections.....	20
Commercial	5
Other	<u>30</u>
Total	<u>1,902</u>
Estimated 2019 Population	6,419 (e)

(a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
(b) Includes the Bonds. See “PLAN OF FINANCING—Outstanding Bonds.”
(c) See “DEBT SERVICE REQUIREMENTS.”
(d) See “THE DISTRICT—Status of Development.”
(e) Based upon 3.5 persons per occupied home.

OFFICIAL STATEMENT

\$5,270,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65

(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. 65 (the "District") of its \$5,270,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, particularly Chapter 1207 of the Texas Government Code, City of Houston Ordinance No. 97-416, and an order (the "Bond Order") adopted by the Board of Directors of the District (the "Board").

This Official Statement includes descriptions of, among others, the Bonds, the Bond Order and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Young & Brooks, Bond Counsel, 10000 Memorial Drive, Suite 260, Houston, Texas, 77024, upon the payment of the costs of duplication.

PLAN OF FINANCING

Purpose

At a bond election held within the District, voters of the District authorized the issuance of \$25,000,000 principal amount of unlimited tax bonds for purchasing and constructing water, sewer and drainage facilities and refunding of such bonds. The District currently has \$21,370,000 principal amount of bonds outstanding (the "Outstanding Bonds").

The proceeds of the Bonds, together with certain available funds of the District, are being used to currently refund and defease a portion of the District's Unlimited Tax Bonds, Series 2011 totaling \$4,955,000 (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 \$16,415,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds").

Outstanding Bonds

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

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2008	\$ 2,785,000	\$ 145,000	\$ -	\$ 145,000
2011	495,000	4,955,000	4,955,000	-
2012	2,870,000	1,530,000	-	1,530,000
2013	2,000,000	2,000,000	-	2,000,000
2014	2,820,000	2,125,000	-	2,125,000
2015	4,140,000	3,780,000	-	3,780,000
2015A	6,080,000	4,580,000	-	4,580,000
2018	2,255,000	2,255,000	-	2,255,000
Total	\$ 23,445,000	\$ 21,370,000	\$ 4,955,000	\$ 16,415,000
The Bonds				5,270,000
The Bonds and Remaining Outstanding Bonds				\$ 21,685,000

Refunded Bonds

Proceeds of the Bonds and lawfully available debt service funds, if any, will be applied to refund and defease the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

Maturity Date	Series
<u>March 1</u>	<u>2011</u>
2025	\$ 450,000 (a)
2026	100,000 (a)
2027	100,000 (a)
2028	100,000 (a)
2029	125,000 (a)
2030	400,000
2031	480,000 (b)
2032	800,000 (b)
2033	800,000 (b)
2034	800,000 (b)
2035	800,000 (b)
	<u>\$ 4,955,000</u>

Redemption Date: 3/27/2019

- (a) Represents term bonds in the total principal amount of \$825,000, scheduled to mature on March 1, 2029.
 (b) Represents term bonds in the total principal amount of \$3,680,000, scheduled to mature on March 1, 2035.

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	\$5,270,000.00
Plus: Net Discount on the Bonds	(67,708.90)
Plus: Transfer from Debt Service Fund	3,000.00
Total Sources of Funds.....	<u>\$5,205,291.10</u>
Uses of Funds:	
Deposit to Paying Agent for Refunded Bonds.....	\$4,972,773.89
Issuance Expenses and Underwriters' Discount (a).....	232,517.21
Total Uses of Funds	<u>\$5,205,291.10</u>

- (a) Includes municipal bond insurance premium.

Payment of Refunded Bonds

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, as paying agent for the Refunded Bonds.

The Bond Order provides that from the proceeds of the sale of the Bonds and certain available funds of the District, the District will deposit with the Paying Agent for the Refunded Bonds the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Paying Agent for the Refunded Bonds in a segregated payment account (the "Payment Account"). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Paying Agent for the Refunded Bonds, Bond Counsel, and the Financial Advisor that the monies held in the Payment Account 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 Paying Agent for the Refunded Bonds and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior resolution 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 payment out of so deposited, and the amounts so deposited in the Payment Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$4,955,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding	Less: Debt	Plus: Debt Service on the Bonds			Total
	Bonds		Service on the	Principal	Interest	
	Debt Service	Refunded Bonds				Debt Service
	Requirements					Requirements
2019	\$ 1,852,379	\$ 123,050		\$ 81,600	\$ 81,600	\$ 1,810,929
2020	1,760,329	246,100	\$ 35,000	162,500	197,500	1,711,729
2021	1,748,411	246,100	35,000	161,100	196,100	1,698,411
2022	1,736,617	246,100	35,000	159,700	194,700	1,685,217
2023	1,715,377	246,100	35,000	158,650	193,650	1,662,927
2024	1,707,608	246,100	40,000	157,900	197,900	1,659,408
2025	1,700,164	343,700	140,000	155,400	295,400	1,651,864
2026	1,689,402	338,900	135,000	151,275	286,275	1,636,777
2027	1,667,173	334,100	135,000	147,225	282,225	1,615,298
2028	1,663,144	353,700	160,000	142,800	302,800	1,612,244
2029	1,649,753	616,100	430,000	133,950	563,950	1,597,603
2030	1,636,444	645,250	475,000	120,375	595,375	1,586,569
2031	1,605,844	652,000	495,000	105,825	600,825	1,554,669
2032	1,620,219	940,000	805,000	86,325	891,325	1,571,544
2033	1,559,906	900,000	790,000	61,906	851,906	1,511,813
2034	1,499,188	860,000	770,000	37,050	807,050	1,446,238
2035	1,462,391	820,000	755,000	12,269	767,269	1,409,659
2036	790,516				-	790,516
Total	\$ 29,064,863	\$ 8,157,300	\$ 5,270,000	\$ 2,035,850	\$ 7,305,850	\$ 28,213,413

Maximum Annual Debt Service Requirement (2019).....\$1,810,929
 Average Annual Debt Service Requirements (2019-2036)\$1,567,412

THE BONDS

General

The Bonds are dated March 1, 2019, and mature on March 1 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from March 1, 2019, at the rates per annum shown on the cover hereof, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1 of each year, commencing September 1, 2019 (six months of interest) until the earlier of maturity or redemption. 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 Bank of New York Mellon Trust Company, National Association in Dallas, Texas (the “Paying Agent/Registrar,” “Paying Agent,” or “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”.

In the event the Book-Entry-Only System is discontinued, interest on the Bonds shall 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.

Authority for Issuance

At four elections held within the District, voters authorized \$4,200,000 unlimited tax and revenue bonds for purposes of acquiring or constructing water, sanitary sewer and drainage facilities and \$33,500,000 unlimited tax bonds for purposes of acquiring or constructing water, sanitary sewer and drainage facilities, and refunding purposes. After sale of the Bonds, the District will have \$385,000 principal amount of unlimited tax and revenue bonds authorized but unissued for purposes of acquiring or constructing water, sanitary sewer and drainage facilities, and \$6,730,000 unlimited tax bonds authorized but unissued for purposes of construction and acquisition of facilities and improvements, and refunding purposes. See “THE BONDS— Issuance of Additional Debt.”

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1207, Texas Government Code, as amended; and City of Houston Ordinance No. 97-416. Before the Bonds can be issued, the Attorney General of Texas must pass on the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement. See “LEGAL MATTERS—Legal Opinions.”

Source and Security for Payment

The Bonds (together with the Remaining Outstanding Bonds and such additional tax bonds as may hereafter be issued by the District) are payable from and secured by a pledge of the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District (see “TAX PROCEDURES”). The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds.

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

Funds

In the Bond Order, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund. Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt.

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after March 1, 2025 prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on March 1, 2024, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See “BOOK-ENTRY-ONLY SYSTEM.” Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. 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.

Method of Payment of Principal and Interest

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

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

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax-exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK- ENTRY-ONLY SYSTEM.” So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State of Texas for the purpose of maintaining the Register on behalf of the District.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”), necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See “THE DISTRICT— General.” The District's voters have authorized the issuance of a total of \$4,200,000 unlimited tax and revenue bonds and \$33,500,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and improvements and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$385,000 of unlimited tax and revenue bonds and \$6,730,000 of unlimited tax bonds authorized but unissued for improvements and facilities and refunding purposes.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the Commission; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election to authorize fire-fighting bonds at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

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 projects 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 authorizing the preparation of a park plan or calling a park bond election at this time.

Annexation

The District lies within the extraterritorial jurisdiction of the City of Houston (the “City”). Generally under Texas law, the District may be annexed in whole, but not in part, by the City without the District's consent, in which case the City must assume the assets, functions and obligations of the District, including the Bonds. 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. No representation is made concerning the likelihood of annexation or the ability of the City to make debt service payments should annexation occur.

Strategic Partnership

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District, and could provide for the continuance of the District as a limited district following general purpose annexation by the City, the conversion of a limited purpose annexation to a general purpose annexation within ten years, or the payment of a fee in lieu of annexation to be derived from residential property within the District based on the costs of providing municipal services to the District. Although the City has negotiated and entered into such an agreement with several other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District. No representation can be made regarding the future likelihood of a strategic partnership agreement or the terms thereof.

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 its liabilities (such as the Bonds) with the assets and liabilities of districts with which it is consolidating. No representation is made concerning the likelihood of consolidation.

Remedies in Event of Default

Other than a writ of mandamus, the Bond Order does not provide a specific remedy for a default. Even if a Registered Owner could obtain a judgment against the District for a default in the payment of principal or interest, such judgment could not be satisfied by execution against any property of the District. If the District defaults, a Registered Owner could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Such remedy might need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principals of equity. Further, certain traditional legal remedies also may not be available. See “INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations.”

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

The Bond 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 either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) for obligations of the District payable from revenues or from ad valorem taxes or both or with a trust company or commercial bank named in the proceedings authorizing such 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 investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall 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. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of Bonds have been made as described above, all rights of the District to initiate proceedings to call such Bonds for redemption or take any other action amending the terms of such Bonds are extinguished; provided, however, that the right to call such 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 such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of such 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 a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law. There is also no assurance that any investment held for such discharge will maintain its rating.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, ("DTC") while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District nor the Financial Advisor takes any responsibility for the accuracy or completeness thereof.

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

General

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

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

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

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

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

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

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

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

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

THE DISTRICT

General

Harris County Municipal Utility District No. 65 (the "District") is a political subdivision of the State of Texas created by order of the Texas Water Rights Commission, now the Commission, on December 21, 1976, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District is subject to the continuing supervision of the Commission.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants 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, after approval by the Commission and the voters of the District.

The Commission exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to the acquisition, construction and improvement of waterworks, wastewater, drainage, parks and recreation facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in the subdivision plat that have been approved by the Planning Commission of the City of Houston and filed in the real property records. Construction and operation of the District's drainage system are subject to the regulatory jurisdiction of additional State of Texas agencies. See "THE SYSTEM."

Description and Location

The District, which contains approximately 517 acres of land, is located in the western portion of Harris County approximately 25 miles west of the downtown business area of Houston and is located wholly within the exclusive extraterritorial jurisdiction of the City of Houston. The District is within the Katy Independent School District. The District is bounded on the south by Franz Road and bisected by Porter Road.

Status of Development

The District encompasses approximately 517 acres of land. Within the District approximately 370 acres have been developed for single family residential purposes and approximately 64 commercial acres are served with trunk facilities. The District also has 55 acres of land in easements, plant sites, recreational facilities and rights-of-way and 28 acres of developable, but undeveloped land. Recreational amenities within the District include a recreation site with a swimming pool and a basketball court.

Single family residential development includes Williamsburg Parish, Sections One and Three through Eleven, Lakecrest Village, Sections One through Five, Lakecrest Forest, Sections One through Nine, Lakecrest Park, Sections One through Three, and Katy Oaks, Sections One through Three (collectively containing approximately 1,873 single family residential lots on approximately 370 acres). Anglia Homes is currently building homes in the District. New homes are being offered for sale at prices ranging from \$120,000 to \$300,000. Values of houses in the older sections are on the tax rolls of the District for the 2017 tax year averaging from approximately \$100,000 to \$300,000. As of January 9, 2019, the District contained approximately 1,834 occupied single-family homes, 20 homes under construction, 13 unoccupied single-family homes and 6 vacant developed lots.

Community Facilities

Community facilities are available in the general vicinity of the District. Neighborhood shopping facilities, including supermarkets, pharmacies, cleaners, restaurants, banking facilities, and other retail and service establishments are located within four miles of the District in the Katy Freeway/Mason Road area near the District. Fire protection is provided by the West-I-10 Volunteer Fire Department, which operates from a fire station located less than one mile from the District. Children residing within the District attend schools within the Katy Independent School District. Community recreation facilities within the District include a swimming pool and playground area.

Landowners

Augment Corporation is the owner of approximately 15 acres of developable but undeveloped land in the District and Franz Katy LLP is the owner of approximately 8 acres of developable but undeveloped land. Neither party has reported any development plans at this time.

MANAGEMENT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms in May of even numbered years only. One of the directors resides within the District and the three other directors own property within the District. Directors are elected by the voters within the District for four-year staggered terms. 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>
Richard Marshall	President	May 2022
Michael Allbritton	Vice President	May 2022
Anca Muntean	Secretary	May 2020
Brenda Lassen	Assistant Secretary	May 2020
Vacant	Director	May 2020

The District contracts for certain necessary services as described below:

Tax Assessor/Collector

Land and improvements within the District are appraised for ad valorem taxation purposes by the Harris County Appraisal District. The District's Tax Assessor/Collector is appointed by the Board of Directors of the District to collect the District's taxes. Wheeler & Associates, Inc. is currently serving in this capacity for the District.

System Operator

The District contracts with Municipal Operations & Consulting Inc. (the "Operator"), for maintenance and operation of the District's system.

Bookkeeper

The District contracts with Myrtle Cruz, Inc. (the "Bookkeeper") for bookkeeping services for the District.

Engineer

The consulting engineer for the District is Edminster, Hinshaw, Russ & Associates Inc., Houston, Texas (the “Engineer”).

Auditor

The District's audited financial statements for the year ended October 31, 2017 were prepared by Roth & Eyring, PLLC. See “APPENDIX A” for a copy of the District's October 31, 2017 financial statement. The District has engaged Roth & Eyring, PLLC to audit its financial statements for the year ended October 31, 2018.

Bond Counsel and General Counsel

Young & Brooks (“Bond Counsel”) serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Young & Brooks serves as general counsel to the District on matters other than the issuance of bonds.

Financial Advisor

Masterson Advisors LLC (the “Financial Advisor”) serves as financial advisor to the District. The fee to be paid the Financial Advisor is contingent upon the 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 and operation of the System was to be accomplished in accordance with the standards and specifications and requirements of such entities and is subject to inspection by each such entity. 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 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 owns and operates its own water plant, which consists of a 1,500 gpm water well, 30,000 gallons of pressure tank capacity, 420,000 gallons of ground storage tank capacity and 3,900 gpm booster pump capacity. According to the District Engineer, the District has adequate capacity to serve 2,500 equivalent single-family connections, which is sufficient to serve the current development in the District and the projected future build out. The District has emergency interconnects with Harris County Municipal Utility District No. 64 and Harris County Municipal Utility District No. 432, which are normally closed.

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 (the “1999 Plan”) to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the 1999 Plan, the District had to submit a groundwater reduction plan (“GRP”) to the Subsidence District by January 2003 and must 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 water demand. Additional disincentive fees will be imposed under the 1999 Plan if the District's groundwater withdrawal exceeds 70% of the District's total water demand beginning January 2010, exceeds 40% of the District's total water demand beginning January 2025, and exceeds 20% of the District's total water demand beginning January 2035.

The District is included in the Groundwater Reduction Plan (“GRP”) prepared by the City of Houston (the “City”), in order to meet the Subsidence District requirements pursuant to a contract entered into between the District and the City. 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 but is obligated to pay to the City a groundwater withdrawal fee for all groundwater produced and used by the District and a water purchase fee for any water actually purchased from the City by the District in the future.

The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future in order to develop surface water conversion infrastructure should the City require the District to convert to surface water and connect to the City’s water supply system.

Wastewater Treatment

The District currently owns 541,151 gallons per day (“gpd”) of capacity in the jointly owned 3.0 million gpd Williamsburg Regional Wastewater Treatment Facility (the “Regional Plant”), which is jointly owned by Harris County Municipal Utility Districts Nos. 61, 62, 63, and 64, West Harris County Municipal Utility Districts Nos. 2 and 5, and the District. According to the District Engineer, the District’s capacity is adequate to serve approximately 2,405 equivalent single-family connections, which is sufficient to serve the current development in the District and the projected future build-out.

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 not an 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 last several years. According to the Engineer, a portion of the undeveloped area in the District lies within the 100-year flood plain elevation as designated by the Federal Emergency Management Administration Flood Insurance Rate Map dated June 18, 2007. Approximately thirteen (13) acres of undeveloped land is in zone AO of the special flood hazard area. It is anticipated that this tract will be developed according to National Flood Insurance Program standards. See “INVESTMENT CONSIDERATIONS—Recent Tropical Weather Events; Hurricane Harvey.”

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
01/05/77, 7/25/81, 07/27/99, 09/14/02	Water, Sanitary Sewer and Drainage and Refunding	\$37,700,000	\$30,585,000*	\$7,115,000

* Includes the Bonds.

FINANCIAL STATEMENT

2018 Taxable Assessed Valuation.....	397,328,188(a)
The Outstanding Bonds.....	\$21,370,000
Less: Refunded Bonds.....	4,955,000
Plus: The Bonds.....	5,270,000
Gross Debt Outstanding.....	\$21,685,000

Ratios of Gross Direct Debt to:

2018 Taxable Assessed Valuation.....	5.46%
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Area of District—517 acres Estimated 2019 Population – 6,419 (b)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
 (b) Estimate based upon 3.5 persons per occupied home.

Cash and Investment Balances as of January 8, 2019

Capital Projects Fund	Cash and Investments	\$1,586,574
Debt Service Fund	Cash and Investments	\$1,229,629 (a)
Operating Fund	Cash and Investments	\$1,176,823

- (a) Neither the Bond Order nor Texas law requires the District to maintain any particular balance in such fund.

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District 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

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas or other publicly available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. 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 payment of their debt, and some are presently levying and collecting such taxes.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Katy Independent School District.....	\$ 2,050,758,022	1/1/2019	1.04%	\$ 18,017,272
Harris County.....	83,075,000	1/1/2019	0.09%	1,845,682
Harris County Flood Control District.....	59,490,000	1/1/2019	0.09%	74,768
Harris County Hospital District.....	6,555,000	1/1/2019	0.09%	53,541
Harris County Department of Education.....	1,732,430,000	1/1/2019	0.09%	5,900
Port of Houston Authority.....	593,754,397	1/1/2019	0.09%	534,379
Total Estimated Overlapping Debt.....				\$ 20,531,541
The District.....	21,685,000 (a)	Current	100.00%	21,685,000
Total Direct and Estimated Overlapping Debt..				\$ 42,216,541
Ratio of Estimated Direct and Overlapping Debt to 2018 Taxable Assessed Valuation.....				10.63%

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

Overlapping Taxes for 2018

	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.....	\$ 0.63518
Katy Independent School District.....	1.51660
Harris County ESD No. 48.....	0.10000
Total Overlapping Tax Rate.....	\$ 2.25178
The District.....	0.64000
Total Tax Rate.....	\$ 2.89178

TAX DATA

Tax Collections

The following statement of tax collections set 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. Differences in totals may vary slightly from other information herein due to differences in dates of data.

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	as of January 8, 2019 (a)	
				Amount	Percent
2013	\$ 161,327,820	\$ 0.97	\$ 1,564,873	\$ 1,560,180	99.70%
2014	199,521,962	0.93	1,855,547	1,849,567	99.68%
2015	269,263,428	0.84	2,261,805	2,257,101	99.79%
2016	333,317,092	0.73	2,433,206	2,423,413	99.60%
2017	387,979,413	0.67	2,599,433	2,587,596	99.54%
2018	397,328,188	0.64	2,539,290	1,854,451	73.03%

(a) Taxes are due upon receipt of bill therefor and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. No split payments are allowed and no discounts are allowed.

Tax Rate Distribution

	2018	2017	2016	2015	2014
Debt Service	\$ 0.44	\$ 0.50	\$ 0.55	\$ 0.69	\$ 0.77
Maintenance and Operations	0.20	0.17	0.18	0.15	0.20
Total	\$ 0.64	\$ 0.67	\$ 0.73	\$ 0.84	\$ 0.97

Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount)
 Maintenance: \$0.20 per \$100 Assessed Valuation

Debt Service Tax

The Board will covenant in the Bond Order to levy and assess, 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 outstanding debt obligations, is adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2018 in the amount of \$0.44 per \$100 assessed valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Pursuant to an election held on January 15, 1977, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$0.20 per \$100 assessed valuation. Such tax, when levied, is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Remaining Outstanding Bonds, the Bonds and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2018 in the amount of \$0.20 per \$100 assessed valuation.

Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. For tax year 2018, the District has not granted a general residential homestead exemption and has granted an exemption of \$5,000 of assessed valuation for homesteads of persons 65 years of age or older and for certain disabled persons.

Principal Taxpayers

The following table represents the principal taxpayers, the type of property, the taxable assessed value of such property and such property's certified assessed value as a percentage of the 2018 Taxable Assessed Valuation of \$397,328,188, which represents certified ownership as of January 1, 2018. Differences in totals may vary slightly from other information herein due to differences in dates of data.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>% of 2018 Certified Taxable Assessed Valuation</u>
Sabic US Holding LP	Land	\$ 20,411,645	5.14%
Franz Katy LLP	Land	1,288,637	0.32%
Centerpoint Energy Houston Electric	Personal	1,260,510	0.32%
Anglia Homes LP	Land and Improvements	1,241,753	0.31%
Katy-Porter Properties LLC	Land and Improvements	1,173,100	0.30%
Ask Khairani Properties LLC	Land and Improvements	866,171	0.22%
FLDG Associates Pool 7 LLC	Land and Improvements	641,218	0.16%
Charlton Plaza LTD	Land	619,420	0.16%
Individual	Land and Improvements	490,468	0.12%
Individual	Land and Improvements	462,988	0.12%
Total		\$ 28,455,910	7.16%

Summary of Assessed Valuation

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAX PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of certified property comprising the 2016 through 2018 Taxable Assessed Valuations. Differences in totals may vary slightly from other information herein due to differences in dates of data.

	<u>2018 Taxable Assessed Valuation</u>	<u>2017 Taxable Assessed Valuation</u>	<u>2016 Taxable Assessed Valuation</u>
Land	\$ 73,907,702	\$ 74,087,366	\$ 64,590,391
Improvements	327,382,554	317,097,092	271,337,010
Personal Property	3,331,382	3,723,202	3,954,272
Exemptions	(7,293,450)	(6,928,247)	(6,564,581)
Total	\$ 397,328,188	\$ 387,979,413	\$ 333,317,092

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 Taxable Assessed Valuation of \$397,328,188. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the 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. See "INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments."

Average Annual Debt Service Requirement (2019-2036)	\$1,567,412
\$0.42 Tax Rate on 2018 Taxable Assessed Valuation at 95% collections.....	\$1,585,339
Maximum Annual Debt Service Requirement (2019).....	\$1,810,929
\$0.48 Tax Rate on 2018 Taxable Assessed Valuation at 95% collections.....	\$1,811,817

TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units wholly 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"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a 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. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Harris County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2018 tax year, the District has granted an exemption of \$5,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, effective January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, effective January 1, 2018, (ii) a first responder as defined under Texas law, 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.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil 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 certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which 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. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it 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. 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. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property but may choose to exempt same in the future by further official action.

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000 if any exemption is granted, from ad valorem taxation. The law provides, however, that 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. For the 2018 tax year, the District has not granted a general residential homestead exemption.

Valuation of Property for Taxation

Generally, all taxable property in the District (other than any qualifying agricultural or timber land) must be appraised by the Harris County Appraisal District at one hundred percent (100%) of market value as of January 1 of each year, subject to review and approval by the Appraisal Review Board. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited to 10 percent annually regardless of the market value of the property. Houses or lots held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business. Valuation of lots or houses at inventory level in future years could reduce the assessed value of such property within the District. The Property Tax Code also requires the Chief Appraiser to reduce the market value of any property by the estimated cost of any remedial action by a property owner to correct, mitigate or prevent pollution.

Certain land may be appraised at less than market value under the Property Tax Code. Upon application of a landowner, land which qualifies as "open-space land" is appraised based on the category of land, using accepted income capitalization methods applied to the average net income derived from the use of the land for agriculture and hunting or recreational leases. Upon application of a landowner, land which qualifies as "timber land" is appraised based on the category of land, using accepted income capitalization methods applied to the average net income derived from the use of the land for production of timber. In either case, if the use of land changes, an additional tax is imposed on the land equal to the difference between the taxes imposed on the land for each of the five (5) years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value in each of those years, plus interest at an annual rate of seven percent (7%) calculated from the dates on which the differences would have become due. There are also special appraisal methods for agricultural land owned by individuals whose primary occupation and income are farming and for recreational, park, and scenic land.

Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

District and Taxpayer Remedies

The chief appraiser must give written notice before the Appraisal Review Board meeting to each owner if a reappraisal has resulted in an increase in value over the prior year or the value rendered by the owner, or if property not previously included on the appraisal roll has been appraised. Any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board of the owner's protest by filing suit in Texas district court. Prior to such appeal, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater or the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. The District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisal of a certain category of property, the exclusion of property from the appraisal records, the grant in whole or in part of a partial exemption, or a determination that land qualifies for special-use appraisal (agricultural or timber classification, for example). The District may not, however, protest a valuation of individual property.

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture 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. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District 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 and not as to others. If a claimant receives the 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 for the three (3) to five (5) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2018 no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

Tax Abatement

Harris County 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 (if it were to annex the District), at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

Rollback of Operation and Maintenance Tax Rate

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate if the total District 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 and contract tax rates plus 1.08 times the District's previous year's operation and maintenance tax rate.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, 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 power to tax the property. The District's tax lien is on a parity with tax liens of other such 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. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest 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."

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WATER AND SEWER OPERATIONS

General

The Bonds and the Remaining Outstanding 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. Although not pledged to the payment of the Bonds, net revenue from operations of the District's system, if any, are available for any legal purpose, including, upon Board action, the payment of debt service on the Bonds. It is anticipated that no significant revenues from water and sewer operations will be available for debt service on the Bonds in the foreseeable future.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's water and sewer system. Accounting principles customarily employed in the determination of net revenues for coverage of debt service have been observed and in all instances exclude depreciation. This summary has been prepared for inclusion herein based upon information obtained from the District's audited financial statements in the case of October 31, 2014 through 2017 and an unaudited summary for the period ending October 31, 2018, from the District's bookkeeper. Reference is made to these statements for further and complete information.

	Fiscal Year Ended October 31				
	2018(a)	2017	2016	2015	2014
Revenues					
Property Taxes	\$ 661,112	\$ 593,372	\$ 402,546	\$ 317,881	\$ 321,822
Water Service	355,401	323,968	314,703	412,780	254,662
Sewer Service	375,774	372,977	363,759	333,485	290,532
Surface Water Fees	157,371	155,569	138,463	224,911	104,041
Penalty and Other	22,603	47,343	44,779	71,509	48,074
Tap Connection and Inspection Fees	27,186	45,440	151,605	213,685	181,935
Investment Revenues	16,537	6,035	1,688	1,210	1,183
Other	2,984	-	-	-	-
Total Revenues	\$ 1,618,968	\$ 1,544,704	\$ 1,417,543	\$ 1,575,461	\$ 1,202,249
Expenditures					
Purchased Services	\$ 272,181	\$ 234,201	\$ 246,071	\$ 202,438	\$ 174,106
Professional Fees	271,035	220,324	217,160	202,680	187,579
Contracted Services	119,373	120,280	123,415	116,378	103,259
Utilities	72,348	82,310	53,246	129,610	64,052
Surface Water Fees	159,511	180,465	153,964	214,267	114,900
Security Service	68,831	67,206	67,151	23,130	-
Repairs, Maintenance & Other					
Operating Expenditures	427,051	253,231	323,684	309,365	355,504
Administrative Expenditures	121,717	110,357	102,738	100,851	82,800
Capital Outlay	70,379	51,628	81,205	97,415	128,600
Total Expenditures	\$ 1,582,426	\$ 1,320,002	\$ 1,368,634	\$ 1,396,134	\$ 1,210,800
Revenues Over (Under) Expenditures	\$ 36,543	\$ 224,702	\$ 48,909	\$ 179,327	\$ (8,551)
Other Sources (Interfund Transfer)	\$ 32,618	\$ 81,321	\$ -	\$ -	\$ -
Fund Balance (Beginning of Year)	\$ 1,174,006	\$ 867,983	\$ 819,074	\$ 639,747	\$ 648,298
Fund Balance (End of Year)	\$ 1,243,167	\$ 1,174,006	\$ 867,983	\$ 819,074	\$ 639,747

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

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not obligations of the State of Texas, Harris County, the City of Houston, or any other political entity other than the District, will be secured by a continuing, direct, annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

Recent Tropical Weather Events; Hurricane Harvey

The Houston area, including the District, is subject to occasional severe tropical 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. However, according to the District’s Operator, the District’s System did not sustain any material damage and there was no interruption of water and sewer service. According to the District’s Operator, after investigation, it appeared that approximately 200 out of approximately 1,800 homes within the District experienced water incursions or other significant damage. In addition, to the knowledge of the District, no commercial improvements within the District experienced structural flooding or other damage as a result of Hurricane Harvey. See “THE SYSTEM.”

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

Specific Flood Type Risks

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

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of commercial property and multi-family developments. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for properties of this type and the construction thereon can be significantly affected by factors such as interest rates, credit availability (see “Credit Market and Liquidity in the Financial Markets” below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of such properties is directed. Further declines in the price of oil could adversely affect the demand for housing and the values of existing homes.

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, 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 25 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 the national financial and credit markets. A downturn in the economic conditions of the City and the nation could adversely affect development and homebuilding plans in the District and restrain or reduce the growth of the District's property tax base.

Competition

The demand for and construction of single-family homes in the District, which is approximately 25 miles from downtown Houston, could be affected by competition from other residential developments, including other residential developments located in the western portion of the Houston area market. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the builders in the sale of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District and tax revenues to be received by 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 District property owners to pay their ad valorem taxes. The 2018 Taxable Assessed Valuation of the District is \$397,328,188. See "FINANCIAL STATEMENT." After issuance of the Bonds, the maximum annual debt service requirement will be \$1,810,929 (2019) and the average annual debt service requirement will be \$1,567,412 (2019-2036). Assuming no increase or decrease from the 2018 Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.48 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$1,810,929 and a tax rate of \$0.42 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$1,567,412. See "DEBT SERVICE REQUIREMENTS." 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 Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event major taxpayers do not pay their District taxes timely. See "TAX PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

Future Debt

Following issuance of the Bonds, the District will have \$385,000 principal amount of unlimited tax and revenue bonds authorized but unissued for purposes of acquiring or constructing water, sanitary sewer, and drainage facilities, and \$6,730,000 principal amount of unlimited tax bonds authorized but unissued bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and for refunding purposes. See "THE BONDS—Issuance of Additional Debt" and "THE SYSTEM." The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District to acquire or construct water, sanitary sewer and drainage facilities must be approved by the Commission.

Environmental and Air Quality Regulations

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

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

Sanctions against a municipal utility district or other type of special purpose district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Air Quality/Greenhouse Gas Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Commission 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—was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA “8-hour” ozone standards are met. The EPA granted the governor’s request to voluntarily reclassify the HGB ozone nonattainment area from a moderate to a severe nonattainment area for the 1997 eight-hour ozone standard, effective October 31, 2008. The HGB area’s new attainment deadline for the 1997 eight-hour ozone standard must be attained as expeditiously as practicable, but no later than June 15, 2019. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA’s standards, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 parts per billion (“ppb”) to 70 ppb. This could make it more difficult for the HGB Area to demonstrate progress in reducing ozone concentration.

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

Pursuant to the Safe Drinking Water Act (“SDWA”), potable (drinking) water provided by a district to more than twenty-five (25) people or fifteen (15) service connections will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Additional or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

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

Construction activities and operations of conservation and reclamation district, such as the District, are also potentially subject to stormwater discharge permitting requirements under provisions from Section 402 of the Clean Water Act and Chapter 26 of the Texas Water Code. The permitting process is, in most instances, managed by the Commission through its Texas Pollutant Discharge Elimination System (“TPDES”).

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

The Commission reissued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (TXR040000) on December 13, 2013. TXR040000 became effective on December 13, 2013 and authorizes the discharge of stormwater to surface waters within the state from small municipal separate storm sewer systems ("Small MS4s"). TXR040000, as reissued, impacts a much greater number of Small MS4s that were not subject to the prior permit due to the 2010 Urbanized Area data released from the US Census Bureau. TXR040000, as reissued, also contains more stringent requirements compared to the prior permit. Small MS4s that are subject to TXR040000, as reissued, must apply for authorization under such permit by June 11, 2014. Notwithstanding the foregoing, the District is located within Harris County and its Small MS4 is subject to regulation by Harris County. Harris County, along with the City of Houston, Harris County Flood Control District, and the Texas Department of Transportation (collectively, the "Joint Task Force") have been issued a joint permit by the United States Environmental Protection Agency which authorizes the discharge of stormwater to surface waters within the state from their respective separate storm sewer systems. Joint Task Force members regulate stormwater discharges within their respective jurisdictions under their Texas Pollutant Discharge Elimination System Permit No. WQ0004685000. Harris County regulates the District's Small MS4 and, therefore, the Commission does not at this time require the District to obtain coverage under TXR040000. Small MS4 regulation by Joint Task Force members may change in the future and the Commission may require the District to obtain coverage under TXR040000 in the future.

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

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedure against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAX PROCEDURES—District's Rights in the Event of Tax Delinquencies."

Registered Owners Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond 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 (1) is 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 TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ 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.

The District may not be placed into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

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

Marketability

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

Changes in Tax Legislation

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

2019 Legislative Session

On January 10, 2019, the Texas Legislature convened its 86th regular session until May 27, 2019. During this time, the Legislature will likely enact laws which affect ad valorem tax and other matters which could adversely affect the marketability or market value of the Bonds. The District cannot predict actions of the Legislature.

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has entered into an agreement with BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM" 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 and its claim paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of "MUNICIPAL BOND RATING."

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 has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See “MUNICIPAL BOND INSURANCE” for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript of certain certified proceedings had incident to the authorization and issuance of the Bonds including a certified copy of the unqualified approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The District also will furnish the approving legal opinion of Young & Brooks, Bond Counsel, to the effect that based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, against all taxable property within the District. See “TAX MATTERS” below for a discussion of Bond Counsel's opinion regarding the tax-exempt status of the Bonds. Such opinions express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

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

Legal Review

In their capacity as Bond Counsel, Young & Brooks has reviewed the information in this Official Statement under the captioned sections “PLAN OF FINANCING—Payment of Refunded Bonds,” “THE BONDS,” “MANAGEMENT—Attorney,” “THE DISTRICT—General,” “TAX PROCEDURES,” “LEGAL MATTERS—Legal Opinions,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” (except for the subsection “Compliance With Prior Undertakings”), solely to determine whether such information, insofar as it relates to matters of law, fairly summarizes the laws 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.

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

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 of the financial condition of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

No-Litigation Certificate

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, Young & Brooks, Houston, Texas, 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, (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, and (c) the verification report prepared by Public Finance Partners LLC, Certified Public Accountants. Failure by the District to comply with the aforementioned representations or covenants could cause the interest on the Bonds to become includable in gross income 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 Issuer 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. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the Project. 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 Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds (the “Original Issue Discount 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. 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.

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, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR 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.

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.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates, and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as “qualified tax-exempt obligations.” Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”

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 its 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 Build America Mutual Assurance Company. Moody’s Investors Service (“Moody’s”) has assigned an underlying credit rating of “A3” to the Bonds without regard to credit enhancement. An explanation of the rating may be obtained from Moody’s.

There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by S&P or Moody’s, 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, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as 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.

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$526 million, \$113 million and \$414 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

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 \$5,158,879.67 (representing the par amount of the Bonds of \$5,270,000, less a net discount on the Bonds of \$67,708.90, less an Underwriter’s discount of \$43,411.43 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 (the “SEC”) under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein 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.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, 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 funds deposited with the Paying Agent for the Refunded Bonds, 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 Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes and (iii) compliance with the City of Houston Ordinance No. 97-416.

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 District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District’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 believed to be reliable. No guarantee is made by the District as to the accuracy or completeness of the information derived from sources other than the District, and the inclusion herein of information from sources other than the District 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 SYSTEM” (as related to District facilities)—Engineer; “FINANCIAL STATEMENT” and “TAX DATA”—Harris County Appraisal District and Wheeler & Associates, Inc.; “ESTIMATED OVERLAPPING DEBT STATEMENT”—the Municipal Advisory Council of Texas.

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

Engineer: Certain information related to the District's System and certain other information included in the sections entitled “THE DISTRICT” and “THE SYSTEM” have been provided by Edminster, Hinshaw, Russ and Associates, Inc., the District's consulting engineer, and have been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

Tax Assessor Collector: The information contained in this Official Statement relating to the historical breakdown of the Certified Taxable Assessed Valuations, principal taxpayers and certain other historical data concerning tax rates and tax collections has been provided by Wheeler & Associates, Inc., and is included herein in reliance upon his authority as an expert in assessing and collecting taxes.

Auditor: The District's audited financial statements for the year ended October 31, 2017 and the independent auditor's report of Roth & Eyring, PLLC, have been included herein as “APPENDIX A.”

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

Updating of Official Statement

For the period beginning on the date of the award of the sale of the Bonds to the Underwriter and ending on the ninety-first (91st) day after the “end of the underwriting period,” (as defined in SEC Rule 15c(2)-12(f)(2)), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement this Official Statement in order to make the statements herein, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, not materially misleading, the District will promptly notify the Underwriter of the occurrence of such event and will cooperate in the preparation of a revised Official Statement, or amendments or supplements hereto, so that the statements in this Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, be materially misleading. The District assumes no responsibility for supplementing this Official Statement thereafter.

Certification of Official Statement

The District, acting through its Board in its official capacity and in reliance upon the experts listed above, 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 has made no independent investigation 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"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

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 "FINANCIAL STATEMENT," "TAX DATA," "WATER AND SEWER OPERATIONS," and "DEBT SERVICE REQUIREMENTS" (most of which information is contained in the District's annual audit report) and in Appendix A (Audited Financial Statements). The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2018.

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide 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. Investors can access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of 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 SEC Rule 15c2-12, taking into account any amendments and interpretations of SEC Rule 15c2-12 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 SEC Rule 15c2-12 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

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12 with the exception of the following: When the District filed its Annual Financial Information and Operating Data for the fiscal year ending September 30, 2017, it failed to include one CUSIP from its Series 2008 bond issue. The annual filing for the missing CUSIP was made with the MSRB on July 5, 2018. Also, the District was not timely informed of a change to the District's underlying rating on December 20, 2018 from "BBB" to "BBB+", and accordingly the District did not file notice of the resulting rating change to its Series 2011 Bonds within ten business days after the rating change occurred. The Event Notice for the rating change was filed with the MSRB on February 15, 2019.

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. 65, as of the date shown on the cover page.

/s/ Richard Marshall
President, Board of Directors

ATTEST:

/s/ Anca Muntean
Secretary, Board of Directors

APPENDIX A

District Audited Financial Statements for the fiscal year ended October 31, 2017

HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 65
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
OCTOBER 31, 2017

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Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Fax 281-277-9484

February 13, 2018

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 65
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Harris County Municipal Utility District No. 65, as of and for the year ended October 31, 2017, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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 of 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Harris County Municipal Utility District No. 65 as of October 31, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 23 be presented to supplement the basic financial statements. Such information, although not 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 24 to 46 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.

North & Cousins, PLLC

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Harris County Municipal Utility District No. 65 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended October 31, 2017.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. Other activities, such as security service, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Current and other assets	\$ 6,486,448	\$ 6,360,847	\$ 125,601
Capital assets	12,873,200	12,508,779	364,421
Total assets	<u>19,359,648</u>	<u>18,869,626</u>	<u>490,022</u>
Long-term liabilities	20,613,890	20,978,386	(364,496)
Other liabilities	1,459,745	1,550,130	(90,385)
Total liabilities	<u>22,073,635</u>	<u>22,528,516</u>	<u>(454,881)</u>
Total deferred inflows of resources	<u>2,463,274</u>	<u>2,350,579</u>	<u>112,695</u>
Net position:			
Invested in capital assets, net of related debt	(8,847,421)	(9,569,070)	721,649
Restricted	2,479,642	2,680,830	(201,188)
Unrestricted	1,190,518	878,771	311,747
Total net position	<u>\$ (5,177,261)</u>	<u>\$ (6,009,469)</u>	<u>\$ 832,208</u>

Summary of Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 2,449,317	\$ 2,278,487	\$ 170,830
Charges for services	945,297	1,013,309	(68,012)
Other revenues	22,615	10,674	11,941
Total revenues	<u>3,417,229</u>	<u>3,302,470</u>	<u>114,759</u>
Expenses:			
Service operations	1,812,440	1,869,615	(57,175)
Debt service	772,581	800,369	(27,788)
Total expenses	<u>2,585,021</u>	<u>2,669,984</u>	<u>(84,963)</u>
Change in net position	832,208	632,486	199,722
Net position, beginning of year	<u>(6,009,469)</u>	<u>(6,641,955)</u>	<u>632,486</u>
Net position, end of year	<u>\$ (5,177,261)</u>	<u>\$ (6,009,469)</u>	<u>\$ 832,208</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended October 31, 2017 were \$3,684,391, an increase of \$75,432 from the prior year.

The General Fund balance increased by \$306,023, in accordance with the District's financial plan.

The Debt Service Fund balance decreased by \$138,835, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$91,756, as authorized expenditures exceeded interest earnings.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 23 of this report. The budgetary fund balance as of October 31, 2017, was expected to be \$701,723 and the actual end of year fund balance was \$1,174,006.

Capital Asset and Debt Administration

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Land	\$ 118,330	\$ 118,330	\$ 0
Detention ponds	625,245	625,245	0
Construction in progress	1,821,528	1,079,293	742,235
Water facilities	3,377,696	3,526,872	(149,176)
Sewer facilities	6,930,401	7,159,039	(228,638)
Totals	<u>\$ 12,873,200</u>	<u>\$ 12,508,779</u>	<u>\$ 364,421</u>

Changes to capital assets during the fiscal year ended October 31, 2017, are summarized as follows:

Additions:		
Water line construction		\$ 24,123
Developer construction		742,235
Water plant equipment replacements		10,226
Joint venture improvements		<u>15,269</u>
Total additions to capital assets		791,853
Decreases:		
Depreciation		<u>(427,432)</u>
Net change to capital assets		<u>\$ 364,421</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended October 31, 2017, are summarized as follows:

Bonded debt payable, beginning of year	\$ 21,395,000
Bonds paid	<u>(1,135,000)</u>
Bonded debt payable, end of year	<u>\$ 20,260,000</u>

At October 31, 2017, the District had \$9,685,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

On February 13, 2018, the District issued \$2,255,000 in unlimited tax bonds.

The District's bonds have an underlying rating of BBB and A3 by Standard & Poor's and Moody's, respectively. The Series 2012, 2013 and 2015A bonds are insured by Assured Guaranty Municipal Corp., the Series 2008 bonds are insured by Assured Guaranty Corp. and the Series 2015 bonds are insured by Build America Mutual Assurance Company. The Series 2011 and 2014 bonds are not insured. The insured rating of the Series 2008, 2012, 2013, 2015 and 2015A bonds is AA and A2 by Standard & Poor's and Moody's, respectively. The insured rating of the Series 2015A bonds is AA+ by Kroll Bond Rating Agency. There was no change in the bond ratings during the fiscal year ended October 31, 2017.

As further described in Note 5 of the notes to the financial statements, developers within the District have constructed certain underground facilities within the District's boundaries. The District has agreed to reimburse these developers from the proceeds of future bond issues subject to the approval of the Texas Commission on Environmental Quality. At October 31, 2017, the estimated amount due to the developers was \$1,821,528.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$34,800,000 for the 2017 tax year (approximately 10%), primarily due to the addition of new houses to the tax base.

Relationship to the City of Houston

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 ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston without the District's consent. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District would be annexed for limited purposes by the City. The terms of any such agreement would be determined by the City and the District.

The District is not aware of any plans regarding annexation or a strategic partnership with the City of Houston.

Water Supply Issues

The Harris-Galveston Coastal Subsidence District (the "Subsidence District") was created by the Texas Legislature to reduce subsidence by regulating the withdrawal of groundwater within Harris and Galveston Counties. In 1999, the Subsidence District adopted its District Regulatory Plan ("Regulatory Plan") to control groundwater withdrawals. The Regulatory Plan divides the Subsidence District's jurisdiction into regulatory areas. The Subsidence District's Regulatory Area 3 ("Area 3") generally encompasses northwest and western Harris County, including the District. Pursuant to the Regulatory Plan, specific major water users, including those in Area 3, must reduce groundwater withdrawals to no more than 70% by January 2010, to no more than 40% by January 2025 and to no more than 20% by January 2035. Additionally, each such water user, including the District, is required to have either a certified Groundwater Reduction Plan ("GRP") on file with the Subsidence District or to be part of a regional GRP; otherwise, the District risks being assessed a substantial disincentive penalty per 1,000 gallons of water pumped. The District has opted to become part of the City of Houston (the "City") GRP pursuant to a contract entered into between the District and the City. 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, but is obligated to pay to the City a groundwater withdrawal fee for all groundwater produced and used by the District and a water purchase fee for any water actually purchased from the City by the District in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future in order to develop surface water conversion infrastructure should the City require the District to convert to surface water and connect to the City's water supply system or should the District determine that it would be in the District's best interest to supplement or replace its groundwater supply with surface water.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

OCTOBER 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 187,698	\$ 62,121	\$ 3,094	\$ 252,913	\$	\$ 252,913
Certificates of deposit, at cost, Note 7		725,752		725,752		725,752
Temporary investments, at cost, Note 7	1,094,132	438,948	1,305,071	2,838,151		2,838,151
Receivables:						
Property taxes	635,798	1,877,448		2,513,246		2,513,246
Accrued penalty and interest on property taxes				0	33,821	33,821
Service accounts	68,359			68,359		68,359
Accrued interest		1,235		1,235		1,235
Prepaid expenditures	37,974			37,974		37,974
Maintenance taxes collected not yet transferred from other fund	6,676			6,676	(6,676)	0
Operating reserve at joint venture, Note 9	10,000			10,000		10,000
Groundwater bank certificates, at cost, Note 11	4,997			4,997		4,997
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	2,565,103	2,565,103
Depreciable capital assets				0	10,308,097	10,308,097
Total assets	<u>\$2,045,634</u>	<u>\$3,105,504</u>	<u>\$1,308,165</u>	<u>\$ 6,459,303</u>	<u>12,900,345</u>	<u>19,359,648</u>
LIABILITIES						
Accounts payable	\$ 126,886	\$ 2,326	\$	\$ 129,212		129,212
Accrued interest payable				0	120,582	120,582
Customer deposits	103,220			103,220		103,220
Maintenance taxes collected not yet transferred to other fund		6,676		6,676	(6,676)	0
Long-term liabilities, Note 5:						
Due within one year				0	1,106,731	1,106,731
Due in more than one year				0	20,613,890	20,613,890
Total liabilities	<u>230,106</u>	<u>9,002</u>	<u>0</u>	<u>239,108</u>	<u>21,834,527</u>	<u>22,073,635</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>641,522</u>	<u>1,894,282</u>	<u>0</u>	<u>2,535,804</u>	<u>(72,530)</u>	<u>2,463,274</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Nonspendable:						
Operating reserve at joint venture, Note 9	10,000			10,000	(10,000)	0
Reserved for groundwater bank certificates, Note 11	4,997			4,997	(4,997)	0
Assigned to:						
Debt service		1,202,220		1,202,220	(1,202,220)	0
Capital projects			1,308,165	1,308,165	(1,308,165)	0
Unassigned	<u>1,159,009</u>			<u>1,159,009</u>	<u>(1,159,009)</u>	<u>0</u>
Total fund balances	<u>1,174,006</u>	<u>1,202,220</u>	<u>1,308,165</u>	<u>3,684,391</u>	<u>(3,684,391)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$2,045,634</u>	<u>\$3,105,504</u>	<u>\$1,308,165</u>	<u>\$ 6,459,303</u>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(8,847,421)	(8,847,421)
Restricted for debt service					1,171,477	1,171,477
Restricted for capital projects					1,308,165	1,308,165
Unrestricted					1,190,518	1,190,518
Total net position					<u>\$ (5,177,261)</u>	<u>\$ (5,177,261)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED OCTOBER 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 593,372	\$ 1,814,016	\$	\$ 2,407,388	\$ 22,258	\$ 2,429,646
Water service	323,968			323,968		323,968
Sewer service	372,977			372,977		372,977
Surface water fees, Note 10	155,569			155,569		155,569
Penalty, interest and other	47,343	11,201		58,544	8,470	67,014
Tap connection and inspection fees	45,440			45,440		45,440
Interest on deposits and investments	6,035	7,115	9,465	22,615		22,615
Total revenues	<u>1,544,704</u>	<u>1,832,332</u>	<u>9,465</u>	<u>3,386,501</u>	<u>30,728</u>	<u>3,417,229</u>
EXPENDITURES / EXPENSES						
Service operations:						
Purchased sewer services, Note 9	234,201			234,201		234,201
Professional fees	220,324	26,450	2,510	249,284		249,284
Contracted services	120,280	42,861	500	163,641		163,641
Utilities	82,310			82,310		82,310
Surface water pumpage fees, Note 10	180,465			180,465		180,465
Repairs, maintenance and other operating expenditures	253,231			253,231		253,231
Security service	67,206			67,206		67,206
Administrative expenditures	110,357	25,413		135,770		135,770
Depreciation				0	427,432	427,432
Capital outlay / non-capital outlay	51,628		16,890	68,518	(49,618)	18,900
Debt service:						
Principal retirement		1,135,000		1,135,000	(1,135,000)	0
Interest and fees		741,443		741,443	31,138	772,581
Total expenditures / expenses	<u>1,320,002</u>	<u>1,971,167</u>	<u>19,900</u>	<u>3,311,069</u>	<u>(726,048)</u>	<u>2,585,021</u>
Excess (deficiency) of revenues over expenditures	<u>224,702</u>	<u>(138,835)</u>	<u>(10,435)</u>	<u>75,432</u>	<u>756,776</u>	<u>832,208</u>
OTHER FINANCING SOURCES (USES)						
Reimbursement to (from) other fund, Note 7	81,321	0	(81,321)	0	0	0
Total other financing sources (uses)	<u>81,321</u>	<u>0</u>	<u>(81,321)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances / net position	306,023	(138,835)	(91,756)	75,432	756,776	832,208
Beginning of year	<u>867,983</u>	<u>1,341,055</u>	<u>1,399,921</u>	<u>3,608,959</u>	<u>(9,618,428)</u>	<u>(6,009,469)</u>
End of year	<u>\$ 1,174,006</u>	<u>\$ 1,202,220</u>	<u>\$ 1,308,165</u>	<u>\$ 3,684,391</u>	<u>\$ (8,861,652)</u>	<u>\$ (5,177,261)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65NOTES TO THE FINANCIAL STATEMENTSOCTOBER 31, 2017

NOTE 1: REPORTING ENTITY

Harris County Municipal Utility District No. 65 (the "District") was created by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective December 21, 1976, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on December 22, 1976, and the first bonds were sold on June 26, 1981. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

The District is a participant in the Williamsburg Regional Sewage Treatment Plant operated by the Williamsburg Regional Sewage Authority (the "Authority"). Oversight of the Authority is exercised by the Board of Delegates of the Authority which is comprised of representatives from the participants. Based on the criteria described above, the Authority's financial activity has not been included in the District's financial statements. Transactions with and summary financial information of this joint venture are described in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 3,684,391	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			
Total capital assets, net			12,873,200
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:			
Bonds payable	\$ (20,260,000)		
Deferred charge on refunding (to be amortized as interest expense)	216,654		
Issuance discount, net of premium (to be amortized as interest expense)	144,253		
Due to developer	<u>(1,821,528)</u>		(21,720,621)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:			
Accrued penalty and interest on property taxes receivable	33,821		
Uncollected property taxes	<u>72,530</u>		106,351
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:			
Accrued interest			<u>(120,582)</u>
Net position, end of year			<u>\$ (5,177,261)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances	\$	75,432
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 49,618	
Depreciation	<u>(427,432)</u>	(377,814)
<p>The issuance of long-term debt provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Principal reduction		1,135,000
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(27,566)	
Issuance discount, net of premium	<u>(7,971)</u>	(35,537)
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	8,470	
Uncollected property taxes	<u>22,258</u>	30,728
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>4,399</u>
Change in net position	\$	<u><u>832,208</u></u>

NOTE 4: CAPITAL ASSETS

At October 31, 2017, "Invested in capital assets, net of related debt" was \$(8,847,421). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended October 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 118,330	\$	\$	\$ 118,330
Detention ponds	625,245			625,245
Construction in progress	<u>1,079,293</u>	<u>742,235</u>		<u>1,821,528</u>
Total capital assets not being depreciated	<u>1,822,868</u>	<u>742,235</u>	<u>0</u>	<u>2,565,103</u>
Depreciable capital assets:				
Water system	5,333,470	34,349		5,367,819
Sewer system	<u>9,210,018</u>	<u>15,269</u>		<u>9,225,287</u>
Total depreciable capital assets	<u>14,543,488</u>	<u>49,618</u>	<u>0</u>	<u>14,593,106</u>
Less accumulated depreciation for:				
Water system	(1,806,598)	(183,525)		(1,990,123)
Sewer system	<u>(2,050,979)</u>	<u>(243,907)</u>		<u>(2,294,886)</u>
Total accumulated depreciation	<u>(3,857,577)</u>	<u>(427,432)</u>	<u>0</u>	<u>(4,285,009)</u>
Total depreciable capital assets, net	<u>10,685,911</u>	<u>(377,814)</u>	<u>0</u>	<u>10,308,097</u>
Total capital assets, net	<u>\$ 12,508,779</u>	<u>\$ 364,421</u>	<u>\$ 0</u>	<u>\$ 12,873,200</u>
Changes to capital assets:				
Capital outlay		\$ 49,618	\$	
Increase in liability to developers		742,235		
Less depreciation expense for the fiscal year		<u>(427,432)</u>		
Net increases / decreases to capital assets		<u>\$ 364,421</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

On February 13, 2018, the District issued \$2,255,000 in unlimited tax bonds.

Long-term liability activity for the fiscal year ended October 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 21,395,000	\$	\$ 1,135,000	\$ 20,260,000	\$ 1,145,000
Deferred amounts for issuance discount net of premium	(152,224)		(7,971)	(144,253)	(11,629)
Deferred amounts for refunding	<u>(244,220)</u>		<u>(27,566)</u>	<u>(216,654)</u>	<u>(26,640)</u>
Total bonds payable	<u>20,998,556</u>	<u>0</u>	<u>1,099,463</u>	<u>19,899,093</u>	<u>1,106,731</u>
Due to developers (see below)	<u>1,079,293</u>	<u>742,235</u>	<u>0</u>	<u>1,821,528</u>	-----
Total long-term liabilities	<u>\$ 22,077,849</u>	<u>\$ 742,235</u>	<u>\$ 1,099,463</u>	<u>\$ 21,720,621</u>	<u>\$ 1,106,731</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Developer Construction Commitments and Liabilities

Developers within the District have contributed funds on behalf of the District for the expansion of the Williamsburg Regional Sewage Treatment Authority wastewater treatment plant under the terms of contracts with the District. Developers within the District have also constructed certain underground facilities within the District's boundaries. The District has agreed to reimburse these developers from the proceeds of future bond issues subject to the approval of the Texas Commission on Environmental Quality. At October 31, 2017, the estimated amount due to developers was \$1,821,528. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

As of October 31, 2017, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,145,000	\$ 710,096	\$ 1,855,096
2019	980,000	684,516	1,664,516
2020	920,000	660,016	1,580,016
2021	935,000	635,597	1,570,597
2022	955,000	606,304	1,561,304
2023 - 2027	5,090,000	2,553,789	7,643,789
2028 - 2032	5,810,000	1,616,968	7,426,968
2033 - 2036	<u>4,425,000</u>	<u>356,065</u>	<u>4,781,065</u>
	<u>\$ 20,260,000</u>	<u>\$ 7,823,351</u>	<u>\$ 28,083,351</u>

Bonds voted	\$ 37,700,000
Bonds approved for sale and sold	28,015,000
Bonds voted and not issued	9,685,000

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 bond issues payable at October 31, 2017, were as follows:

	<u>Series 2008</u>	<u>Series 2011</u>
Amounts outstanding, October 31, 2017	\$215,000	\$4,955,000
Interest rates	6.00%	4.80% to 5.00%
Maturity dates, serially beginning/ending	March 1, 2018/2020	March 1, 2025/2035
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates	March 1, 2016*	March 1, 2019*

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>Refunding Series 2012</u>	<u>Series 2013</u>	<u>Refunding Series 2014</u>
Amounts outstanding, October 31, 2017	\$1,860,000	\$2,000,000	\$2,250,000
Interest rates	2.00% to 4.00%	4.125% to 4.75%	2.877%
Maturity dates, serially beginning/ending	March 1, 2018/2023	March 1, 2021/2036	March 1, 2018/2027
Interest payment dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable dates	March 1, 2020*	March 1, 2021*	March 1, 2023*
	<u>Refunding Series 2015</u>	<u>Series 2015A</u>	
Amounts outstanding, October 31, 2017	\$3,900,000	\$5,080,000	
Interest rates	2.00% to 3.25%	2.00% to 4.00%	
Maturity dates, serially beginning/ending	March 1, 2018/2031	March 1, 2018/2036	
Interest payment dates	March 1/September 1	March 1/September	
Callable dates	March 1, 2023*	March 1, 2023*	

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders require that the District 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.

At an election held January 15, 1977, the voters within the District authorized a maintenance tax not to exceed \$0.20 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On October 10, 2017, the District levied the following ad valorem taxes for the 2017 tax year and the 2018 fiscal year on the adjusted taxable valuation of \$367,654,145:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.5000	\$ 1,838,264
Maintenance	<u>0.1700</u>	<u>625,010</u>
	<u>\$ 0.6700</u>	<u>\$ 2,463,274</u>

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2017 tax year total property tax levy	\$ 2,463,274
2017 tax year total property tax levy deferred to 2018 fiscal year	(2,463,274)
2016 tax year total property tax levy deferred to 2017 fiscal year	2,350,579
Appraisal district adjustments to prior year taxes	<u>79,067</u>
Statement of Activities property tax revenues	<u>\$ 2,429,646</u>

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the District's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$2,838,151.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deposits and temporary investments restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest,
paying agent fees and costs of assessing and
collecting taxes:

Cash	\$ 62,121
Certificates of deposit	725,752
Temporary investments	<u>438,948</u>
	<u>\$ 1,226,821</u>

Capital Projects Fund

For construction of capital assets:

Cash	\$ 3,094
Temporary investments	<u>1,305,071</u>
	<u>\$ 1,308,165</u>

NOTE 8: 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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At October 31, 2017, the District had physical damage and boiler and machinery coverage of \$4,350,000, comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, consultant's crime coverage of \$10,000 and a tax assessor-collector bond of \$10,000.

NOTE 9: JOINT VENTURES WITH OTHER GOVERNMENTAL UNITS

Water and Sanitary Sewer Line Contract

On March 29, 2005 (amended and restated March 8, 2006 and amended March 24, 2008), the District and Harris County Municipal Utility District No. 64 ("No. 64") entered into an Agreement for Sharing of Existing Water Lines, Existing Lift Station Facilities and Existing Force Main. The term of the contract is fifty years. Under the terms of the agreement, the District purchased capacity in No. 64's lines and lift stations. No. 64 is the operator of the lines and lift stations and will bill the District based upon the number of Equivalent Connections in each district. The District incurred costs of \$22,706 under this contract for the fiscal year ended October 31, 2017.

Regional Sewage Treatment Plant

The District is a participant with several other districts and developers in the Williamsburg Regional Sewage Treatment Plant (the "Plant"). Oversight of the Plant is exercised by the Williamsburg Regional Sewage Authority (the "Authority"). The Authority is governed by a Board of Delegates whose members are appointed by the boards of directors of the participating districts. Each participating district appoints one delegate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Authority was formed by agreements between Harris County Municipal Utility District No. 61 and West Harris County Municipal Utility District No. 2 on September 29, 1976, as amended November 1, 1980, to include Harris County Municipal Utility District Nos. 62, 63, 64, 65, and West Harris County Municipal Utility District No. 5. The governing contract has been amended on August 15, 2001, March 17, 2004, June 17, 2009, December 16, 2009, June 16, 2010 and June 20, 2012. On June 17, 2015, the participants adopted a resolution which acknowledged the ownership of each participant's capacity in the Williamsburg Regional Sewage Treatment Plant (the "Plant") as follows: Harris County Municipal Utility District No. 61 -- 14.70%; Harris County Municipal Utility District No. 62 -- 16.18%; Harris County Municipal Utility District No. 63 -- 8.79%; Harris County Municipal Utility District No. 64 -- 14.22%; Harris County Municipal Utility District No. 65 -- 17.29%; West Harris County Municipal Utility District No. 2 -- 15.65%; West Harris County Municipal Utility District No. 5 -- 9.66%; Westside Ventures, Ltd. -- 3.51%. Construction costs of the Plant are funded by the contribution of funds from each participating district. The Authority issues no debt. Each participant's share of the capital assets is reported in the financial statements of each participant.

Each participant is responsible only for its share of the operating costs of the Authority which are allocated and billed monthly based upon each participant's equivalent sewer connections serviced by the Authority. During the year ended October 31, 2017, the District's share of the Authority's general and capital outlay expenditures was \$234,201 and \$15,269, respectively. The District's share of the Authority's operating reserve was \$10,000 at October 31, 2017.

The following summary financial data of the Authority's General Fund is presented for the Authority's fiscal year ended October 31, 2017:

	<u>Authority Total</u>	<u>District's Share</u>
Total assets	\$ 120,754	
Total liabilities	<u>50,754</u>	
Total fund balance	70,000	\$ 10,000
Operating reserve	<u>(70,000)</u>	<u>(10,000)</u>
Undesignated fund balance	<u>\$ 0</u>	<u>\$ 0</u>
Total revenues	\$ 968,937	\$ 249,470
Total expenditures	<u>(968,937)</u>	<u>(249,470)</u>
Excess revenues (expenditures)	0	0
Fund balance, beginning of year	<u>70,000</u>	<u>10,000</u>
Fund balance, end of year	<u>\$ 70,000</u>	<u>\$ 10,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 10: SURFACE WATER FEES

On May 27, 2009, the District entered into a Water Supply and Groundwater Reduction Plan Wholesale Agreement (the "Agreement") with the City of Houston (the "City") in order to meet regulatory compliance requirements of the Harris Galveston Coastal Subsidence District (the "Subsidence District"). The Agreement continues until noon on December 31, 2040. Under the terms of the Agreement, the City of Houston is the manager of the Groundwater Reduction Plan (the "GRP") that includes the District as a participant. In order to achieve overall compliance with the Subsidence District regulation for reduction of groundwater use in Regulatory Area 3, treated surface water will be supplied by the City to some of the participants in the GRP area in sufficient quantities to meet the requirements. Under the terms of the Agreement, the District pays to the City a monthly pumpage charge based on the District's water pumpage. The surface water pumpage fees payable by the District to the City for the fiscal year ended October 31, 2017, were \$180,465. The District billed its customers \$155,569 for surface water fees during the fiscal year ended October 31, 2017.

NOTE 11: GROUNDWATER BANK CERTIFICATES

The District has purchased Groundwater Bank certificates directly from the issuer, the Harris-Galveston Subsidence District (the "HGSD"). These certificates expire in 40 years (certificates issued after August 1, 2001 expire in 20 years) and allow the bearer to pump the quantity of water specified on the certificate from wells instead of using surface water as mandated by the District. Certificates can also be used in lieu of a disincentive fee assessed by the HGSD for ground water pumpage in excess of the District's permit as amended. At October 31, 2017, the District had in its possession certificates totaling 11,625.6 thousand gallons of water (4,569.6 40-year certificates and 7,056 20-year certificates). The District values the certificates at cost which resulted in a total cost basis for the certificates on hand of \$4,997 at October 31, 2017.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND
FOR THE YEAR ENDED OCTOBER 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 401,743	\$ 401,743	\$ 593,372	\$ 191,629
Water service	400,000	400,000	323,968	(76,032)
Sewer service	315,000	315,000	372,977	57,977
Surface water fees	122,000	122,000	155,569	33,569
Penalty and other	22,000	22,000	47,343	25,343
Tap connection and inspection fees	64,400	64,400	45,440	(18,960)
Interest on deposits and investments	1,400	1,400	6,035	4,635
TOTAL REVENUES	<u>1,326,543</u>	<u>1,326,543</u>	<u>1,544,704</u>	<u>218,161</u>
EXPENDITURES				
Service operations:				
Purchased sewer services	322,868	322,868	234,201	(88,667)
Professional fees	170,600	170,600	220,324	49,724
Contracted services	118,000	118,000	120,280	2,280
Utilities	65,000	65,000	82,310	17,310
Surface water pumpage fees	135,000	135,000	180,465	45,465
Repairs, maintenance and other operating expenditures	283,120	283,120	230,525	(52,595)
Security service	67,500	67,500	67,206	(294)
Administrative expenditures	107,600	107,600	110,357	2,757
Capital outlay	223,115	223,115	51,628	(171,487)
TOTAL EXPENDITURES	<u>1,492,803</u>	<u>1,492,803</u>	<u>1,297,296</u>	<u>(195,507)</u>
EXCESS REVENUES (EXPENDITURES)	(166,260)	(166,260)	247,408	413,668
OTHER FINANCING SOURCES (USES)				
Reimbursement (to) from other fund	<u>0</u>	<u>0</u>	<u>81,321</u>	<u>81,321</u>
TOTAL OTHER FINANCIAL SOURCES (USES)	<u>0</u>	<u>0</u>	<u>81,321</u>	<u>81,321</u>
EXCESS SOURCES (USES)	(166,260)	(166,260)	328,729	494,989
FUND BALANCE, BEGINNING OF YEAR	<u>867,983</u>	<u>867,983</u>	<u>867,983</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 701,723</u>	<u>\$ 701,723</u>	<u>\$ 1,196,712</u>	<u>\$ 494,989</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
OCTOBER 31, 2017

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65

SCHEDULE OF SERVICES AND RATES

OCTOBER 31, 2017

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$10.00	5,000	N	\$1.00 1.50 2.00	5,001 to 10,000 10,001 to 20,000 Over 20,000
WASTEWATER:	\$16.00	10,000	N	\$1.00	Over 10,000
SURCHARGE:	\$0.94 City of Houston groundwater pumpage fee.				

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$15.00 Wastewater: \$16.00 Surcharge: \$9.40

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65

SCHEDULE OF SERVICES AND RATES (Continued)

OCTOBER 31, 2017

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	0	0	1.0	0
< or = 3/4"	1,836	1,821	1.0	1,821
1"	8	8	2.5	20
1-1/2"	5	5	5.0	25
2"	11	9	8.0	72
3"	0	0	15.0	0
4"	0	0	25.0	0
6"	0	0	50.0	0
8"	1	1	80.0	80
10"	0	0	115.0	0
Total Water	<u>1,861</u>	<u>1,844</u>		<u>2,018</u>
Total Wastewater	<u>1,834</u>	<u>1,817</u>	1.0	<u>1,817</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 194,934
 Gallons billed to customers (unaudited): 187,693

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 96%

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

Does the District have Debt Service standby fees? Yes No

If yes, date of the most recent Commission Order: _____

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

If yes, date of the most recent Commission Order: _____

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65

EXPENDITURES

FOR THE YEAR ENDED OCTOBER 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Purchased sewer services	\$ 234,201	\$ 0	\$ 0	\$ 234,201
Professional fees:				
Auditing	10,600			10,600
Legal	188,194	26,450	2,510	217,154
Engineering	21,530			21,530
	<u>220,324</u>	<u>26,450</u>	<u>2,510</u>	<u>249,284</u>
Contracted services:				
Bookkeeping	17,680		500	18,180
Operation and billing	102,600			102,600
Tax assessor-collector		24,948		24,948
Central appraisal district		17,913		17,913
	<u>120,280</u>	<u>42,861</u>	<u>500</u>	<u>163,641</u>
Utilities	<u>82,310</u>	<u>0</u>	<u>0</u>	<u>82,310</u>
Surface water pumpage fees	<u>180,465</u>	<u>0</u>	<u>0</u>	<u>180,465</u>
Repairs, maintenance and other operating expenditures:				
Repairs and maintenance	195,804			195,804
Chemicals	14,135			14,135
Laboratory costs	7,526			7,526
Sewer inspection costs	9,655			9,655
Shared lift station expenditures	22,706			22,706
TCEQ assessment	3,405			3,405
	<u>253,231</u>	<u>0</u>	<u>0</u>	<u>253,231</u>
Security service	<u>67,206</u>	<u>0</u>	<u>0</u>	<u>67,206</u>
Administrative expenditures:				
Directors' fees	9,600			9,600
Office supplies and postage	69,383			69,383
Insurance	19,853	100		19,953
Permit fees	3,271			3,271
Other	8,250	25,313	0	33,563
	<u>110,357</u>	<u>25,413</u>	<u>0</u>	<u>135,770</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65EXPENDITURES (Continued)FOR THE YEAR ENDED OCTOBER 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY				
Authorized expenditures	\$ 32,728	\$	\$ 16,890	\$ 49,618
Tap connection costs	18,900			18,900
	<u>51,628</u>	<u>0</u>	<u>16,890</u>	<u>68,518</u>
DEBT SERVICE				
Principal retirement	<u>0</u>	<u>1,135,000</u>	<u>0</u>	<u>1,135,000</u>
Interest and fees:				
Interest		736,693		736,693
Paying agent fees		4,750		4,750
	<u>0</u>	<u>741,443</u>	<u>0</u>	<u>741,443</u>
TOTAL EXPENDITURES	<u>\$ 1,320,002</u>	<u>\$ 1,971,167</u>	<u>\$ 19,900</u>	<u>\$ 3,311,069</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS,
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED OCTOBER 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash receipts from revenues excluding maintenance taxes	\$ 939,988	\$ 1,829,723	\$ 9,465	\$ 2,779,176
Maintenance tax receipts		592,473		592,473
Transfer of maintenance taxes	594,337			594,337
Reimbursement from other fund	455,505	4,525		460,030
Overpayments from taxpayers		<u>18,988</u>		<u>18,988</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>1,989,830</u>	<u>2,445,709</u>	<u>9,465</u>	<u>4,445,004</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash disbursements for:				
Current expenditures	1,326,840	96,384	3,010	1,426,234
Capital outlay	51,628		16,890	68,518
Debt service		1,876,443		1,876,443
Transfer of maintenance taxes		594,337		594,337
Disbursements from developer const. deposit	28,752			28,752
Decrease in customer deposits	3,380			3,380
Reimbursement to other fund	4,525		455,505	460,030
Refund of taxpayer overpayments		<u>19,984</u>		<u>19,984</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>1,415,125</u>	<u>2,587,148</u>	<u>475,405</u>	<u>4,477,678</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	574,705	(141,439)	(465,940)	(32,674)
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>707,125</u>	<u>1,368,260</u>	<u>1,774,105</u>	<u>3,849,490</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 1,281,830</u>	<u>\$ 1,226,821</u>	<u>\$ 1,308,165</u>	<u>\$ 3,816,816</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS

OCTOBER 31, 2017

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
TexPool				
No. 2574400002	Market	On demand	\$ 1,094,132	\$ 0
DEBT SERVICE FUND				
Certificates of Deposit				
No. 6000017837	0.80%	8/15/18	\$ 242,505	\$ 393
No. 1002306917	0.80%	2/20/18	240,602	374
No. 3300041725	0.95%	2/15/18	<u>242,645</u>	<u>468</u>
			<u>\$ 725,752</u>	<u>\$ 1,235</u>
TexPool				
No. No. 2574400001	Market	On demand	\$ 438,948	\$ 0
CAPITAL PROJECTS FUND				
TexPool				
No. 2574400003	Market	On demand	\$ 1,305,071	\$ 0
Total – All Funds			<u>\$ 3,563,903</u>	<u>\$ 1,235</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED OCTOBER 31, 2017

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 583,760	\$ 1,790,230
Additions and corrections to prior year taxes	<u>19,501</u>	<u>59,566</u>
Adjusted receivable, beginning of year	603,261	1,849,796
2017 ADJUSTED TAX ROLL	<u>625,010</u>	<u>1,838,264</u>
Total to be accounted for	1,228,271	3,688,060
Tax collections: Current tax year	(5,723)	(16,834)
Prior tax years	<u>(586,750)</u>	<u>(1,793,778)</u>
RECEIVABLE, END OF YEAR	<u>\$ 635,798</u>	<u>\$ 1,877,448</u>
RECEIVABLE, BY YEARS		
2007 and prior	\$ 2,108	\$ 6,601
2008	1,038	3,248
2009	944	2,953
2010	1,121	3,191
2011	912	3,173
2012	883	3,430
2013	969	3,731
2014	1,029	4,951
2015	1,165	5,358
2016	6,342	19,380
2017	<u>619,287</u>	<u>1,821,432</u>
RECEIVABLE, END OF YEAR	<u>\$ 635,798</u>	<u>\$ 1,877,448</u>

Fiscal year 2017 General Fund property tax revenue of \$593,372 under the modified accrual basis of accounting is comprised of prior tax year collections of \$586,750 during fiscal year 2017 and 2016 tax year collections of \$6,622 during fiscal year 2016.

Fiscal year 2017 Debt Service Fund property tax revenue of \$1,814,016 under the modified accrual basis of accounting is comprised of prior tax year collections of \$1,793,778 during fiscal year 2017 and 2016 tax year collections of \$20,238 during fiscal year 2016.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED OCTOBER 31, 2017

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 68,513,617	\$ 64,520,276	\$ 60,944,398	\$ 47,342,054
Improvements	301,970,754	270,887,463	210,101,352	154,557,627
Personal property	3,030,791	3,772,573	4,074,207	3,117,639
Less exemptions	<u>(5,861,017)</u>	<u>(6,339,614)</u>	<u>(5,865,447)</u>	<u>(5,512,549)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 367,654,145</u>	 <u>\$ 332,840,698</u>	 <u>\$ 269,254,510</u>	 <u>\$ 199,504,771</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.50000	\$ 0.55000	\$ 0.69000	\$ 0.77000
Maintenance tax rates*	<u>0.17000</u>	<u>0.18000</u>	<u>0.15000</u>	<u>0.16000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.67000</u>	 <u>\$ 0.73000</u>	 <u>\$ 0.84000</u>	 <u>\$ 0.93000</u>
 TAX ROLLS	 <u>\$ 2,463,274</u>	 <u>\$ 2,429,728</u>	 <u>\$ 2,261,730</u>	 <u>\$ 1,855,387</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>0.9%**</u>	 <u>98.9 %</u>	 <u>99.7 %</u>	 <u>99.7 %</u>

*Maximum tax rate approved by voters on January 15, 1977: \$0.20

**The District's taxes are usually levied in the fall and are not delinquent until after the following January 31.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
OCTOBER 31, 2017

<u>Due During Fiscal Years Ending October 31</u>	<u>Series 2008</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 70,000	\$ 10,800	\$ 80,800
2019	70,000	6,600	76,600
2020	<u>75,000</u>	<u>2,250</u>	<u>77,250</u>
TOTALS	<u>\$ 215,000</u>	<u>\$ 19,650</u>	<u>\$ 234,650</u>

<u>Due During Fiscal Years Ending October 31</u>	<u>Series 2011</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$	\$ 246,100	\$ 246,100
2019		246,100	246,100
2020		246,100	246,100
2021		246,100	246,100
2022		246,100	246,100
2023		246,100	246,100
2024		246,100	246,100
2025	100,000	243,700	343,700
2026	100,000	238,900	338,900
2027	100,000	234,100	334,100
2028	125,000	228,700	353,700
2029	400,000	216,100	616,100
2030	450,000	195,250	645,250
2031	480,000	172,000	652,000
2032	800,000	140,000	940,000
2033	800,000	100,000	900,000
2034	800,000	60,000	860,000
2035	<u>800,000</u>	<u>20,000</u>	<u>820,000</u>
TOTALS	<u>\$ 4,955,000</u>	<u>\$ 3,571,450</u>	<u>\$ 8,526,450</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2017

<u>Due During Fiscal Years Ending October 31</u>	<u>Series 2012</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 330,000	\$ 48,425	\$ 378,425
2019	330,000	41,413	371,413
2020	340,000	33,875	373,875
2021	290,000	26,425	316,425
2022	285,000	17,100	302,100
2023	<u>285,000</u>	<u>5,700</u>	<u>290,700</u>
TOTALS	<u>\$ 1,860,000</u>	<u>\$ 172,938</u>	<u>\$ 2,032,938</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2017

<u>Due During Fiscal Years Ending October 31</u>	<u>Series 2013</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$	\$ 88,406	\$ 88,406
2019		88,406	88,406
2020		88,406	88,406
2021	25,000	87,890	112,890
2022	50,000	86,343	136,343
2023	50,000	84,281	134,281
2024	50,000	82,219	132,219
2025	50,000	80,157	130,157
2026	70,000	77,682	147,682
2027	90,000	74,382	164,382
2028	90,000	70,669	160,669
2029	100,000	66,750	166,750
2030	100,000	62,563	162,563
2031	100,000	58,313	158,313
2032	200,000	51,937	251,937
2033	200,000	43,187	243,187
2034	200,000	34,188	234,188
2035	225,000	24,344	249,344
2036	400,000	9,500	409,500
TOTALS	<u>\$ 2,000,000</u>	<u>\$ 1,259,623</u>	<u>\$ 3,259,623</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2017

<u>Due During Fiscal Years Ending October 31</u>	<u>Series 2014</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 125,000	\$ 62,934	\$ 187,934
2019	130,000	59,266	189,266
2020	135,000	55,454	190,454
2021	145,000	51,426	196,426
2022	145,000	47,255	192,255
2023	155,000	42,940	197,940
2024	465,000	34,022	499,022
2025	165,000	24,958	189,958
2026	395,000	16,902	411,902
2027	390,000	5,610	395,610
TOTALS	<u>\$ 2,250,000</u>	<u>\$ 400,767</u>	<u>\$ 2,650,767</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2017

<u>Due During Fiscal Years Ending October 31</u>	<u>Series 2015</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 120,000	\$ 112,769	\$ 232,769
2019	120,000	110,369	230,369
2020	120,000	107,369	227,369
2021	225,000	102,194	327,194
2022	225,000	95,444	320,444
2023	230,000	89,481	319,481
2024	230,000	84,018	314,018
2025	455,000	74,319	529,319
2026	230,000	64,044	294,044
2027	230,000	57,144	287,144
2028	630,000	44,244	674,244
2029	375,000	28,935	403,935
2030	360,000	17,225	377,225
2031	350,000	5,687	355,687
TOTALS	<u>\$ 3,900,000</u>	<u>\$ 993,242</u>	<u>\$ 4,893,242</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2017

<u>Due During Fiscal Years Ending October 31</u>	<u>Series 2015A</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 500,000	\$ 140,662	\$ 640,662
2019	330,000	132,362	462,362
2020	250,000	126,562	376,562
2021	250,000	121,562	371,562
2022	250,000	114,062	364,062
2023	250,000	104,062	354,062
2024	250,000	95,937	345,937
2025	250,000	89,531	339,531
2026	250,000	82,500	332,500
2027	250,000	75,000	325,000
2028	250,000	67,344	317,344
2029	250,000	59,532	309,532
2030	250,000	51,719	301,719
2031	250,000	43,906	293,906
2032	250,000	36,094	286,094
2033	250,000	28,282	278,282
2034	250,000	20,313	270,313
2035	250,000	12,188	262,188
2036	250,000	4,063	254,063
TOTALS	<u>\$ 5,080,000</u>	<u>\$ 1,405,681</u>	<u>\$ 6,485,681</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2017

<u>Due During Fiscal Years Ending October 31</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2018	\$ 1,145,000	\$ 710,096	\$ 1,855,096
2019	980,000	684,516	1,664,516
2020	920,000	660,016	1,580,016
2021	935,000	635,597	1,570,597
2022	955,000	606,304	1,561,304
2023	970,000	572,564	1,542,564
2024	995,000	542,296	1,537,296
2025	1,020,000	512,665	1,532,665
2026	1,045,000	480,028	1,525,028
2027	1,060,000	446,236	1,506,236
2028	1,095,000	410,957	1,505,957
2029	1,125,000	371,317	1,496,317
2030	1,160,000	326,757	1,486,757
2031	1,180,000	279,906	1,459,906
2032	1,250,000	228,031	1,478,031
2033	1,250,000	171,469	1,421,469
2034	1,250,000	114,501	1,364,501
2035	1,275,000	56,532	1,331,532
2036	650,000	13,563	663,563
TOTALS	<u>\$ 20,260,000</u>	<u>\$ 7,823,351</u>	<u>\$ 28,083,351</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED OCTOBER 31, 2017

	<u>(1)</u>	<u>(2)</u>
Bond Series:	2008	2011
Interest Rate:	6.00%	4.80% to 5.00%
Dates Interest Payable:	March 1/ September 1	March 1/ September 1
Maturity Dates:	March 1, 2018/2020	March 1, 2025/2035
Bonds Outstanding at Beginning of Current Year	\$ 280,000	\$ 4,955,000
Less Retirements	<u>(65,000)</u>	<u>0</u>
Bonds Outstanding at End of Current Year	<u>\$ 215,000</u>	<u>\$ 4,955,000</u>
Current Year Interest Paid	<u>\$ 14,850</u>	<u>\$ 246,100</u>

Bond Descriptions and Original Amount of Issue

- (1) Harris County Municipal Utility District No. 65 Unlimited Tax Bonds, Series 2008 (\$2,785,000)
(2) Harris County Municipal Utility District No. 65 Unlimited Tax Bonds, Series 2011 (\$4,955,000)

Paying Agent/Registrar

- (1) (2) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 37,700,000	\$ 0	Included in tax auth.
Amount Issued:	28,015,000		
Remaining to be Issued:	9,685,000		

Net Debt Service Fund deposits and investments balances as of October 31, 2017: \$1,202,220
Average annual debt service payment for remaining term of all debt: 1,478,071

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED OCTOBER 31, 2017

	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>
Bond Series:	2012	2013	2014
Interest Rate:	2.00% to 4.00%	4.125% to 4.75%	2.877%
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	March 1/ September 1
Maturity Dates:	March 1, 2018/2023	March 1, 2021/2036	March 1, 2018/2027
Bonds Outstanding at Beginning of Current Year	\$ 2,185,000	\$ 2,000,000	\$ 2,375,000
Less Retirements	<u>(325,000)</u>	<u>0</u>	<u>(125,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 1,860,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,250,000</u>
Current Year Interest Paid	<u>\$ 54,974</u>	<u>\$ 88,407</u>	<u>\$ 66,530</u>

Bond Descriptions and Original Amount of Issue

- (3) Harris County Municipal Utility District No. 65 Unlimited Tax Refunding Bonds, Series 2012 (\$2,780,000)
- (4) Harris County Municipal Utility District No. 65 Unlimited Tax Bonds, Series 2013 (\$2,000,000)
- (5) Harris County Municipal Utility District No. 65 Unlimited Tax Refunding Bonds, Series 2014 (\$2,820,000)

Paying Agent/Registrar

- (3) (4) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- (5) Regions Bank, N.A., Birmingham, Alabama

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT, (Continued)
FOR THE YEAR ENDED OCTOBER 31, 2017

	<u>(6)</u>	<u>(7)</u>	<u>Totals</u>
Bond Series:	2015	2015A	
Interest Rate:	2.00% to 3.25%	2.00% to 4.00%	
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	
Maturity Dates:	March 1, 2018/2031	March 1, 2018/2036	
Bonds Outstanding at Beginning of Current Year	\$ 4,020,000	\$ 5,580,000	\$ 21,395,000
Less Retirements	<u>(120,000)</u>	<u>(500,000)</u>	<u>(1,135,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 3,900,000</u>	<u>\$ 5,080,000</u>	<u>\$ 20,260,000</u>
Current Year Interest Paid	<u>\$ 115,169</u>	<u>\$ 150,663</u>	<u>\$ 736,693</u>

Bond Descriptions and Original Amount of Issue

- (6) Harris County Municipal Utility District No. 65 Unlimited Tax Refunding Bonds, Series 2015 (\$4,140,000)
(7) Harris County Municipal Utility District No. 65 Unlimited Tax Bonds, Series 2015A (\$6,080,000)

Paying Agent/Registrar

- (6) (7) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND
FOR YEARS ENDED OCTOBER 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
REVENUES										
Property taxes	\$ 593,372	\$ 402,546	\$ 317,881	\$ 321,822	\$ 287,146	38.4 %	28.3 %	20.1 %	26.7 %	27.6 %
Water service	323,968	314,703	412,780	254,662	235,186	21.0	22.2	26.2	21.2	22.7
Sewer service	372,977	363,759	333,485	290,532	264,137	24.1	25.7	21.2	24.2	25.5
Surface water fees	155,569	138,463	224,911	104,041	98,518	10.1	9.8	14.3	8.7	9.5
Penalty and other	47,343	44,779	71,509	48,074	41,936	3.1	3.2	4.5	4.0	4.0
Tap connection and inspection fees	45,440	151,605	213,685	181,935	107,850	2.9	10.7	13.6	15.1	10.4
Interest on deposits and investments	6,035	1,688	1,210	1,183	2,755	0.4	0.1	0.1	0.1	0.3
TOTAL REVENUES	<u>1,544,704</u>	<u>1,417,543</u>	<u>1,575,461</u>	<u>1,202,249</u>	<u>1,037,528</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Purchased sewer services	234,201	246,071	202,438	174,106	171,167	15.2	17.4	12.8	14.5	16.5
Professional fees	220,324	217,160	202,680	187,579	148,634	14.3	15.3	12.9	15.6	14.3
Contracted services	120,280	123,415	116,378	103,259	86,157	7.8	8.7	7.4	8.6	8.3
Utilities	82,310	53,246	129,610	64,052	59,905	5.3	3.8	8.2	5.3	5.8
Surface water fees	180,465	153,964	214,267	114,900	120,737	11.7	10.9	13.6	9.6	11.6
Repairs, maintenance and other operating expenditures	253,231	323,684	309,365	355,504	326,222	14.9	22.8	19.6	29.5	31.5
Security service	67,206	67,151	23,130	0	0	4.4	4.7	1.5	0.0	0.0
Administrative expenditures	110,357	102,738	100,851	82,800	80,028	7.1	7.2	6.4	6.9	7.7
Capital outlay	51,628	81,205	97,415	128,600	59,961	3.3	5.7	6.2	10.7	5.8
TOTAL EXPENDITURES	<u>1,320,002</u>	<u>1,368,634</u>	<u>1,396,134</u>	<u>1,210,800</u>	<u>1,052,811</u>	<u>84.0</u>	<u>96.5</u>	<u>88.6</u>	<u>100.7</u>	<u>101.5</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ 224,702</u>	<u>\$ 48,909</u>	<u>\$ 179,327</u>	<u>\$ (8,551)</u>	<u>\$ (15,283)</u>	<u>16.0 %</u>	<u>3.5 %</u>	<u>11.4 %</u>	<u>(0.7) %</u>	<u>(1.5) %</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>1,844</u>	<u>1,813</u>	<u>1,685</u>	<u>1,512</u>	<u>1,301</u>					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>1,817</u>	<u>1,786</u>	<u>1,664</u>	<u>1,495</u>	<u>1,292</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND
FOR YEARS ENDED OCTOBER 31

	<u>AMOUNT</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES										
Property taxes	\$ 1,814,016	\$ 1,852,266	\$ 1,529,207	\$ 1,239,030	\$ 1,115,291	99.0 %	98.7 %	98.2 %	98.7 %	98.7 %
Penalty and interest	11,201	18,247	10,835	10,612	10,178	0.6	1.0	0.7	0.8	0.9
Accrued interest on bonds received at date of sale	0	0	12,389	2,947	0	0.0	0.0	0.8	0.2	0.0
Interest on deposits and investments	7,115	4,801	4,338	3,997	3,977	0.4	0.3	0.3	0.3	0.4
TOTAL REVENUES	<u>1,832,332</u>	<u>1,875,314</u>	<u>1,556,769</u>	<u>1,256,586</u>	<u>1,129,446</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Professional fees	26,450	21,125	25,002	12,217	20,293	1.4	1.1	1.6	1.0	1.8
Contracted services	42,861	48,873	45,253	30,372	32,990	2.3	2.6	2.9	2.4	2.9
Other expenditures	25,413	10,516	5,530	14,094	5,549	1.4	0.6	0.4	1.1	0.5
Debt service:										
Principal retirement	1,135,000	1,120,000	570,000	525,000	520,000	62.0	59.7	36.6	41.8	46.1
Refunding contribution	0	0	9,675	0	0	0.0	0.0	0.6	0.0	0.0
Interest and fees	741,443	767,001	662,208	706,031	679,332	40.5	40.9	42.5	56.2	60.1
TOTAL EXPENDITURES	<u>1,971,167</u>	<u>1,967,515</u>	<u>1,317,668</u>	<u>1,287,714</u>	<u>1,258,164</u>	<u>107.6</u>	<u>104.9</u>	<u>84.6</u>	<u>102.5</u>	<u>111.4</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ (138,835)</u>	<u>\$ (92,201)</u>	<u>\$ 239,101</u>	<u>\$ (31,128)</u>	<u>\$ (128,718)</u>	<u>(7.6) %</u>	<u>(4.9) %</u>	<u>15.4 %</u>	<u>(2.5) %</u>	<u>(11.4) %</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSOCTOBER 31, 2017

Complete District Mailing Address: Harris County Municipal Utility District No. 65
c/o Young & Brooks
10000 Memorial Drive, Suite 260
Houston, Texas 77024

District Business Telephone No.: 713-651-0800

Submission date of the most recent District Registration Form: May 10, 2016

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Richard Marshall 19015 Tyrone Spring, Texas 77373	Elected 5/10/14- 5/05/18	\$ 3,450	\$ 2,793	President
Michael Allbritton 2335 Charlton House Katy, Texas 77493	Elected 5/05/14- 5/05/18	2,850	2,585	Vice President
Jeanie Gibbs 3300 Sage Road, No. 2108 Houston, Texas 77056	Elected 5/07/16- 5/02/20	1,800	0	Secretary
Brenda G. Lassen 7310 Bubbling Brook Lane Houston, Texas 77095	Elected 5/07/16- 5/02/20	1,500	107	Assistant Secretary

Four directors at October 31, 2017.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 65BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)OCTOBER 31, 2017CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Young & Brooks 10000 Memorial Drive, Suite 260 Houston, Texas 77024	12/22/75	\$ 217,654	Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	7/19/78	19,509	Bookkeeper
Municipal Operations & Consulting, Inc. 27316 Spectrum Way Oak Ridge, Texas 77385	10/01/02	354,502	Operator
Edminster, Hinshaw, Russ & Associates, Inc. 10555 Westoffice Drive Houston, Texas 77042	12/22/75	21,530	Engineer
Cathy Wheeler 6935 Barney Road, Suite 110 Houston, Texas 77040	12/22/75	34,598	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	17,913	Central Appraisal District
Hilltop Securities, Inc. 700 Milam Street, Suite 500 Houston, Texas 77002	Prior to 10/31/92	0	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	1983	10,600	Independent Auditor

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

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

Telecopy:

212-962-1524 (attention: Claims)

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