

## OFFICIAL STATEMENT DATED MARCH 6, 2019

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

THE BONDS HAVE BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—Qualified Tax Exempt Obligations"

### NEW ISSUE-Book-Entry Only

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

**\$1,675,000**

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
*(A political subdivision of the State of Texas located within Harris County)*  
**UNLIMITED TAX REFUNDING BONDS**  
**SERIES 2019**

### Interest accrues from April 1, 2019

**Due: April 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 Regions Bank, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from April 1, 2019 and will be payable on April 1 and October 1 of each year commencing October 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 ASSURED GUARANTY MUNICIPAL CORP. See "MUNICIPAL BOND INSURANCE" herein.

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

Due (April 1)	Principal Amount (a)	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (April 1)	Principal Amount (a)	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2020	\$ 145,000	2.000%	1.870%	759263 FU5	2025	\$ 170,000	2.250%	2.370%	759263 FZ4
2021	150,000	2.000	1.910	759263 FV3	2026	175,000 (a)	2.250	2.540	759263 GA8
2022	155,000	2.000	2.000	759263 FW1	2027	180,000 (a)	2.500	2.700	759263 GB6
2023	155,000	2.000	2.120	759263 FX9	2028	185,000 (a)	2.500	2.830	759263 GC4
2024	165,000	2.000	2.230	759263 FY7	2029	195,000 (a)	3.000	3.000	759263 GD2

(a) Bonds maturing on or after April 1, 2026, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on April 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. See "THE BONDS—Redemption Provisions."

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

(c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed. Accrued interest is to be added to the price.

The Bonds, when issued, will constitute valid and legally binding obligations of Reid Road Municipal Utility District No. 2 (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 Roach & Mitchell, PLLC, Houston, Texas, Bond Counsel. Certain other legal matters will be passed upon, on behalf of the Underwriter, by McCall, Parkhurst & Horton, L.L.P., Houston, Texas. Delivery of the Bonds in book-entry form through DTC is expected on or about April 9, 2019.

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### USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, 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 Roach & Mitchell, PLLC, 2800 Post Oak Boulevard, Suite 4100, Houston, Texas, 77056 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."

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

## SALE AND DISTRIBUTION OF THE BONDS

### **The Underwriter**

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$1,639,565.90 (representing the par amount of the Bonds of \$1,675,000.00, less a net original issue discount on the Bonds of \$13,787.85, less an Underwriter’s discount of \$21,646.25) 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 delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term “public” shall not include any person who is a bondhouse, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter. The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

### **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## OFFICIAL STATEMENT SUMMARY

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

<i>The Issuer...</i>	Reid Road Municipal Utility District No. 2, of Harris County, Texas (the "District"), a political subdivision of the State of Texas, is located in Harris County, Texas. See "THE DISTRICT."
<i>The Issue...</i>	\$1,675,000 Reid Road Municipal Utility District No. 2 Unlimited Tax Refunding Bonds, Series 2019, dated April 1, 2019. The Bonds mature serially on April 1 in each year from 2020 through 2029, inclusive, in the respective amounts and bearing interest at the rates for each maturity shown on the cover page hereof. Interest on the Bonds will accrue from April 1, 2019 and will be payable April 1 and October 1 of each year commencing October 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 or after April 1, 2026 are subject to optional redemption, in whole or, from time to time, in part, on April 1, 2025, or on any date thereafter, at a price equal to the principal amount 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 (defined herein) 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."
<i>Book-Entry Only...</i>	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., 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."
<i>Authority for Issuance...</i>	At elections held within the District on August 12, 1978, August 8, 1981 and February 1, 2003, voters of the District authorized a total of \$20,400,000 unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District. The Bonds are issued by the District pursuant to said authorization and to the terms and provisions of the Bond Order (as hereinafter defined), Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; City of Houston Ordinance No. 97-416; and Chapters 49 and 54 of the Texas Water Code, as amended. See "THE BONDS— Authority for Issuance".
<i>Source of Payment...</i>	The Bonds and the Remaining Outstanding Bonds (as hereinafter defined) are payable from a continuing direct 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."
<i>Payment Record...</i>	The District has previously issued \$10,600,000 of waterworks and sewer system combination unlimited tax and revenue bonds, \$7,545,000 principal amount of unlimited tax bonds and \$10,425,000 principal amount of unlimited tax refunding bonds (collectively the "Previously Issued Bonds"), of which \$7,460,000 principal amount of such Previously Issued Bonds is currently outstanding (the "Outstanding Bonds"). See "INVESTMENT CONSIDERATIONS— Future Debt." The District has timely paid its debt service on the Previously Issued Bonds.
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund \$1,575,000 principal amount of the Outstanding Bonds in order to achieve net present value savings in the District's debt service expense. See "PLAN OF FINANCING."
<i>Qualified Tax-Exempt Obligations...</i>	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."

*Municipal Bond Insurance  
and Municipal Bond  
Rating...*

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

*Bond Counsel...*

Roach & Mitchell, PLLC, 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...*

Regions Bank, Houston, Texas.

*Verification Agent...*

Public Finance Partners LLC, Minneapolis, Minnesota.

## THE DISTRICT

*Description...*

The District is a political subdivision of the State of Texas, created by order of the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the "TCEQ" or "Commission"), dated June 29, 1978, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 494 acres of land. See "THE DISTRICT."

*Location...*

The District is located in Harris County, Texas, approximately 16 miles northwest of the central downtown business district of the City of Houston. Windfern Road forms a portion of the northern boundary of the District, and the District is bisected by Fallbrook Drive and the Sam Houston Tollway (Beltway 8). The District is located within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Cypress-Fairbanks Independent School District. See "THE DISTRICT."

*Recent Extreme Weather  
Events; Hurricane Harvey...*

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

The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the Operator, there was no interruption of water and sewer service in the District as a result of Hurricane Harvey. According to the Engineer, the District's system did not sustain any material damage from Hurricane Harvey. To the knowledge of the District, no homes or commercial structures within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

*Status of Development...*

Approximately 162 acres of land within the District has been developed into Harvest Bend, The Village, Sections 1 through 5 and Harvest Bend, The Meadow, Section 2, which collectively encompass 872 single-family residential lots. As of December 21, 2018, there were 865 completed occupied homes and 7 completed unoccupied homes.

Approximately 185 acres of land within the District have been developed for commercial purposes. The Remington Square office park which includes phase 1 (approximately 215,000 square feet of office and retail space) and phase 2 (approximately 200,000 square feet of office space) have been constructed on an approximately 17 acre tract of land. The Legacy Park office building has been constructed on approximately 3 acres of land and has approximately 51,000 square feet of office space. The Legacy at Fallbrook office building has been constructed on approximately 20 acres of land and includes approximately 412,911 square feet of office space and a multi story parking garage.

A Homewood Suites hotel which is approximately 90,000 square feet has recently been completed on an approximately 3 acre tract of land. The Flooring Services of Texas Design Center has been constructed on approximately 8 acres of land and has approximately 127,000 square feet of space. Monarch Trophy has been constructed on approximately 1 acre of land and includes approximately 14,000 square feet of retail space. The Credit Human Federal Credit Union has been constructed on approximately 2 acres of land and has approximately 12,000 square feet of office space. The Plazas at Legacy Park shopping center has been constructed on approximately 1 acre of land and includes an approximately 13,000 square feet of retail space, which includes a Subway restaurant, a donut shop, other small restaurants, a nail salon and a dry cleaners. An Exxon gas and convenience store and a Mobil gas and convenience store have been constructed on a total of approximately 3 acres of land.

The District includes several business park/warehouse developments. The Round Up Distribution Center has been constructed on approximately 12 acres of land and includes approximately 225,000 square feet of warehouse space. The Sam Houston Business Park includes 4 buildings totaling approximately 265,000 square feet on approximately 22 acres of land. The Northwest Crossroads Industrial park includes 2 buildings totaling approximately 680,000 square feet of office/warehouse space on an approximately 38 acre tract of land. The NCI Group has an 60,000 square foot office/warehouse on approximately 5 acres of land. As a part of the Legacy Park business park, there are 4 office warehouses totaling approximately 385,000 square feet of warehouse space located on approximately 28 acres of land. The Legacy Park business center includes 6 buildings totaling approximately 940,000 square feet of office/warehouse/distribution space on approximately 10 acres of land.

Approximately 28 acres of land have been developed into 2 apartment complexes. The Legacy Park Apartments is located on approximately 13 acres of land with 304 apartment units. The Avana Cypress Estates Apartments is located on approximately 15 acres of land with 336 apartment units.

The Cypress Fairbanks Independent School District (“Cy Fair ISD”) owns a 35-acre tract of land, on which Wilbern Elementary School has been constructed on approximately 19 acres. The 35 acres of land owned by Cy Fair ISD are exempt from the payment of property taxes.

In addition to the development described above, the District has approximately 77 acres of land contained in easements, rights-of-way, and plant sites. There are approximately 21 acres of developable land in the District not currently provided with water distribution, wastewater collection and storm drainage facilities. See “THE DISTRICT—Undeveloped Acreage.”

### **INVESTMENT CONSIDERATIONS**

**THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED “INVESTMENT CONSIDERATIONS.”**

**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2018 Certified Taxable Assessed Valuation .....	\$538,720,748	(a)
Gross Direct Debt Outstanding.....	\$ 7,560,000	(b)
Estimated Overlapping Debt .....	<u>31,132,814</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$38,692,814	
Ratios of Gross Direct Debt to:		
2018 Certified Taxable Assessed Valuation .....	1.40%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2018 Certified Taxable Assessed Valuation.....	7.18%	
Debt Service Funds Available as of January 16, 2019 .....	\$777,178	(d)
Operating Funds Available as of January 16, 2019 .....	\$2,664,890	
Capital Projects Funds Available as of January 16, 2019.....	\$2,943,469	
2018 Debt Service Tax Rate .....	\$0.14	
2018 Maintenance Tax Rate .....	<u>0.20</u>	
2018 Total Tax Rate .....	\$0.34	
Average Annual Debt Service Requirement (2019-2038).....	\$512,779	(e)
Maximum Annual Debt Service Requirement (2019).....	\$722,598	(e)
Tax Rates Required to Pay Average Annual Debt Service (2019-2038) at a 95% Collection Rate		
Based upon 2018 Certified Taxable Assessed Valuation .....	\$0.11	(f)
Tax Rates Required to Pay Maximum Annual Debt Service (2019) at a 95% Collection Rate		
Based upon 2018 Certified Taxable Assessed Valuation .....	\$0.15	(f)
Status of Development as of December 21, 2018:		
Completed Single Family Homes (865 occupied) .....	872	
Commercial .....	61	
Multi-Family (2 complexes – 640 units).....	2	
Estimated Population .....	4,308	(g)

- (a) Assessed Value includes \$508,117,716 of taxable value as certified by the Harris County Appraisal District (the “Appraisal District”) and \$30,603,032 of uncertified value, representing the owner’s opinion of value on properties in the District not yet certified for 2018, which totals \$538,720,748. See “TAX PROCEDURES.”
- (b) After the issuance of the Bonds. See “PLAN OF FINANCING—Outstanding Bonds.”
- (c) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt” and “Overlapping Taxes.”
- (d) The District intends to use \$8,000 of available debt service funds towards the purpose for which the Bonds are being issued. See “PLAN OF FINANCING—Sources and Uses of Funds.” Neither Texas law nor the Bond Order requires the District to maintain any particular balance in the Debt Service Fund.
- (e) See “PLAN OF FINANCING—Debt Service Requirements.”
- (f) See “TAX DATA—Tax Adequacy Debt Service.”
- (g) Based upon 3.5 persons per occupied single-family residence and 2 persons per apartment unit.

## OFFICIAL STATEMENT

**\$1,675,000**

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
*(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 Reid Road Municipal Utility District No. 2 (the "District") of its \$1,675,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapter 1207 of the Texas Government Code, City of Houston Ordinance No. 97-416, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board") and elections held within the District.

This OFFICIAL STATEMENT includes descriptions, among others, of 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 such document. Copies of such documents may be obtained from Roach & Mitchell, PLLC, 2800 Post Oak Boulevard, Suite 4100, Houston, Texas 77056.

### PLAN OF FINANCING

#### Purpose

The proceeds of the Bonds are being used to refund and defease a portion of one series of the District's Outstanding Bonds as listed below in "Refunded Bonds" totaling \$1,575,000 (the "Refunded Bonds") in order to achieve a net present value 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" below. A total of \$5,885,000 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 and the current principal balance of the Outstanding Bonds as of February 1, 2019, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2009	\$ 2,150,000	\$ 1,685,000	\$ 1,575,000	\$ 110,000
2012 (a)	2,935,000	380,000	-	380,000
2018	5,395,000	5,395,000	-	5,395,000
Total	\$ 10,480,000	\$ 7,460,000	\$ 1,575,000	\$ 5,885,000
The Bonds				<u>1,675,000</u>
The Bonds and Remaining Outstanding Bonds				\$ 7,560,000

(a) Unlimited Tax Refunding Bonds.



**Refunded Bonds**

The following table lists the principal amounts and maturity dates of the Refunded Bonds and the Redemption Dates on which the Refunded Bonds will be redeemed.

Maturity Date <u>April 1</u>	Series <u>2009</u>
2020	\$ 120,000
2021	125,000
2022	135,000
2023	140,000
2024	150,000 (a)
2025	160,000 (a)
2026	170,000 (b)
2027	180,000 (b)
2028	190,000 (c)
2029	<u>205,000 (c)</u>
	\$ 1,575,000

Redemption Date: April 10, 2019

- (a) Represents a term bond in the total principal amount of \$310,000, scheduled to mature on April 1, 2025.
- (b) Represents a term bond in the total principal amount of \$350,000, scheduled to mature on April 1, 2027.
- (c) Represents a term bond in the total principal amount of \$395,000, scheduled to mature on April 1, 2029.

**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.....	\$1,675,000.00
Plus: Net Premium on the Bonds .....	(13,787.85)
Plus: Transfer from Debt Service Fund .....	<u>8,000.00</u>
Total Sources of Funds.....	\$1,669,212.15
Uses of Funds:	
Deposit to Paying Agent for Refunded Bonds .....	\$1,576,994.29
Issuance Expenses and Underwriters' Discount (a).....	<u>92,217.86</u>
Total Uses of Funds.....	\$1,669,212.15

- (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 Regions Bank, Houston, Texas, as paying agent for the Refunded Bonds (the "Prior Paying Agent").

The Bond Order provides that from the proceeds of the sale of the Bonds and other legally available funds of the District, if any, the District will deposit with the Prior Paying Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Prior Paying Agent in a segregated account (the "Deposit Account"). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Prior Paying Agent, the Underwriter, and the Financial Advisor that the monies held in the Deposit Account are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. By the deposit of the cash with the Prior Paying Agent and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior orders of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited in the Deposit Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

**Debt Service Requirements**

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$1,575,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2019	\$ 733,413	\$ 29,884	\$ -	\$ 19,069	\$ 19,069	\$ 722,598
2020	570,930	197,068	145,000	36,688	181,688	555,550
2021	574,743	196,430	150,000	33,738	183,738	562,050
2022	582,681	200,219	155,000	30,688	185,688	568,150
2023	579,758	198,445	155,000	27,588	182,588	563,900
2024	586,133	201,120	165,000	24,388	189,388	574,400
2025	591,628	203,215	170,000	20,825	190,825	579,238
2026	596,228	204,715	175,000	16,944	191,944	583,456
2027	604,628	205,615	180,000	12,725	192,725	591,738
2028	606,944	205,900	185,000	8,163	193,163	594,206
2029	612,864	210,433	195,000	2,925	197,925	600,356
2030	408,494	-	-	-	-	408,494
2031	408,706	-	-	-	-	408,706
2032	413,581	-	-	-	-	413,581
2033	417,163	-	-	-	-	417,163
2034	420,200	-	-	-	-	420,200
2035	421,400	-	-	-	-	421,400
2036	422,000	-	-	-	-	422,000
2037	422,000	-	-	-	-	422,000
2038	426,400	-	-	-	-	426,400
<b>Total</b>	<b>\$ 10,399,890</b>	<b>\$ 2,053,043</b>	<b>\$ 1,675,000</b>	<b>\$ 233,738</b>	<b>\$ 1,908,738</b>	<b>\$ 10,255,585</b>

Maximum Annual Debt Service Requirement (2019)..... \$722,598  
Average Annual Debt Service Requirements (2019-2038) ..... \$512,779

**THE BONDS**

**General**

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

**Description**

The Bonds will be dated April 1, 2019, with interest payable on October 1, 2019 (six months interest), and on each April 1 and October 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from April 1, 2019, and thereafter, from the most recent Interest Payment Date. The Bonds mature on April 1 of the years and in the amounts and accrue interest at the rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

### **Authority for Issuance**

At elections held within the District on August 12, 1978, August 8, 1981 and February 1, 2003, voters authorized a total of \$20,400,000 principal amount in bonds for the purpose of refunding outstanding bonds of the District. The Bonds constitute the fourth issuance of refunding bonds pursuant to such authorization. See "Issuance of Additional Debt" herein.

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, Chapter 1207 of the Texas Government Code, City of Houston Ordinance No. 97-416, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

### **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the Commission, 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 a total of \$20,400,000 unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$9,215,000 of unlimited tax refunding bonds authorized but unissued. The District's voters have authorized the issuance of a total of \$20,000,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. The District will have \$1,855,000 of unlimited tax bonds authorized but unissued for said improvements and facilities.

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 District does not provide fire protection service, and the Board has not considered calling such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

### **Source and Security for Payment**

The Bonds, together with the Outstanding Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See "TAX PROCEDURES". Investment in the Bonds involves 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. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any political subdivision or entity other than the District.

### **Method of Payment of Principal and Interest**

The Board has appointed Regions Bank, Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

### **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. Any monies remaining after the refunding of the Refunded Bonds and payment of issuance costs will be deposited into the Debt Service Fund.

## **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on or after April 1, 2026 prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on April 1, 2025, or any date thereafter, at a price 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.

## **Registration**

Section 149(a) of the Code 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.

## **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.

## **Financing Road Facilities**

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads ("Road Powers"). Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for Road Powers or calling such an election at this time. Issuance of bonds for roads could dilute the investment security for the Bonds.

## **Financing Recreational Facilities**

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support recreational facilities.

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the Commission in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

The District has not considered calling an election for such purposes but could consider doing so in the future. Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

### **Annexation**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Effective December 1, 2017, such requirements may include the requirement that the City of Houston hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever attempt to annex the District for full purposes and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur. Under the terms of the Strategic Partnership Agreement (as hereinafter defined) between the District and the City of Houston, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for as long as such agreement is in effect. See "THE DISTRICT—Strategic Partnership Agreement."

### **Consolidation**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other's bonds, notes and other obligations. If each district assumes the other's bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other's bonds, notes and other obligations, each district's taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

### **Remedies in Event of Default**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek 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. Certain traditional legal remedies may also not be available. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies".

### **Defeasance**

The District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal of and interest on the Bonds and may defease the Bonds in accordance with the provisions of applicable laws, including, without limitation, Chapter 1207, Texas Government Code, as amended.

Chapter 1207 currently provides that the Bonds may be defeased by a deposit with the Comptroller of Public Accounts of the State of Texas or a Paying Agent of the District which may be invested only in obligations that mature and bear interest payable at times and in amounts sufficient to provide for the scheduled payment or redemption of the Bonds. The deposit may be invested and reinvested in (1) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States, (2) 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 defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, or (3) 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 defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

There is no assurance that 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.

### **BOOK-ENTRY-ONLY SYSTEM**

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants are on file with DTC.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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](http://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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

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

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

## THE DISTRICT

### General

The District is a municipal utility district created by an order of the Texas Water Rights Commission, a predecessor to the Commission, dated June 29, 1978, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the Commission.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities, and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the Commission and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities. See "THE BONDS—Issuance of Additional Debt" and "Financing Recreational Facilities".

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, recreational, road and fire-fighting 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 a plat that has been approved by the City of Houston and filed in the real property records of Harris County. The District is also required to obtain certain Commission approvals prior to acquiring, constructing and financing road and fire-fighting facilities. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

## **Strategic Partnership Agreement**

The District and the City of Houston (the "City") have entered into a Strategic Partnership Agreement dated effective December 17, 2011 (the "SPA") pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a "limited purpose annexation" for that portion of the District which is developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for "full purposes" for at least thirty (30) years from the effective date of the SPA. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater and drainage facilities must be assumed by the City to the maximum extent permitted by Commission rules. The procedures for full purpose annexation under the SPA may differ from those otherwise applicable under Chapter 43, Texas Local Government Code, including any requirements for an election. See "THE BONDS—Annexation."

As of the effective date of the SPA, the City was authorized to impose the one percent (1%) City sales and use tax within the portion of the District included in the limited purpose annexation. Such portion includes primarily the 185 acres of retail and commercial development within the District. The City pays to the District an amount equal to one half (1/2) of all sales and use tax revenue generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (the "Sales Tax Revenue"). Pursuant to State law, the District is authorized to use Sales Tax Revenue generated under the SPA for any lawful purpose. None of the anticipated Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds or the Outstanding Bonds.

## **Description and Location**

The District is located in Harris County, Texas, approximately 16 miles northwest of the central downtown business district of the City of Houston. Windfern Road forms a portion of the northern boundary of the District, and the District is bisected by Fallbrook Drive and the Sam Houston Tollway (Beltway 8). The District is located within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Cypress-Fairbanks Independent School District. The District presently contains approximately 494 acres.

## **Residential Development**

Approximately 162 acres of land within the District has been developed into Harvest Bend, The Village, Sections 1 through 5 and Harvest Bend, The Meadow, Section 2, which collectively encompass 872 single-family residential lots. As of December 21, 2018, there were 865 completed and occupied homes and 7 completed and unoccupied homes.

## **Commercial Development**

Approximately 185 acres of land within the District have been developed for commercial purposes. The Remington Square office park which includes phase 1 (approximately 215,000 square feet of office and retail space) and phase 2 (approximately 200,000 square feet of office space) have been constructed on an approximately 17 acre tract of land. The Legacy Park office building has been constructed on approximately 3 acres of land and has approximately 51,000 square feet of office space. The Legacy at Fallbrook office building has been constructed on approximately 20 acres of land and includes approximately 412,911 square feet of office space and a multi story parking garage.

A Homewood Suites hotel which is approximately 90,000 square feet has recently been completed on an approximately 3 acre tract of land. The Flooring Services of Texas Design Center has been constructed on approximately 8 acres of land and has approximately 127,000 square feet of space. Monarch Trophy has been constructed on approximately 1 acre of land and includes approximately 14,000 square feet of retail space. The Credit Human Federal Credit Union has been constructed on approximately 2 acres of land and has approximately 12,000 square feet of office space. The Plazas at Legacy Park shopping center has been constructed on approximately 1 acre of land and includes approximately 13,000 square feet of retail space, which includes a Subway restaurant, a donut shop, other small restaurants, a nail salon and a dry cleaners. An Exxon gas and convenience store and a Mobil gas and convenience store have been constructed on a total of approximately 3 acres of land.

The District includes several business park/warehouse developments. The Round Up Distribution Center has been constructed on approximately 12 acres of land and includes approximately 225,000 square feet of warehouse space. The Sam Houston Business Park includes 4 buildings totaling approximately 265,000 square feet on approximately 22 acres of land. The Northwest Crossroads Industrial park includes 2 buildings totaling approximately 680,000 square feet of office/warehouse space on an approximately 38 acre tract of land. The NCI Group has an 60,000 square foot office/warehouse on approximately 5 acres of land. As a part of the Legacy Park business park, there are 4 office warehouses totaling approximately 385,000 square feet of warehouse space located on approximately 28 acres of land. The Legacy Park business center includes 6 buildings totaling approximately 940,000 square feet of office/warehouse/distribution space on approximately 10 acres of land.



### **Multi-family Development**

Approximately 28 acres of land have been developed into 2 apartment complexes. The Legacy Park Apartments is located on approximately 13 acres of land with 304 apartment units. The Avana Cypress Estates Apartments is located on approximately 15 acres of land with 336 apartment units.

### **Other Development**

The Cypress Fairbanks Independent School District owns a 35-acre tract of land, on which an elementary school has been constructed on approximately 19 acres, all of which is exempt from the payment of property taxes.

### **Undeveloped Acreage**

In addition to the development described above, the District has approximately 77 acres of land contained in easements, rights-of-way, and plant sites. There are approximately 21 acres of developable land in the District that does not have above-ground improvements.

## **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. All of the Board members either reside or own property within the District. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sean Allen	President	May 2020
Vicki Owen	Vice President	May 2020
Keith Austin	Secretary	May 2020
Fredrick Phillips	Asst. Secretary	May 2022
Vacant	Director	May 2022

The District has no full-time employees but instead contracts with the entities described below for professional services:

### **Tax Assessor/Collector**

Land and improvements in the District are being appraised for taxation by the Harris County Appraisal District. The District contracts with Equi-Tax, Inc. to act as Tax Assessor/Collector for the District.

### **System Operator**

The District contracts with Municipal Operations & Consulting for maintenance and operation of the District's system.

### **Bookkeeper**

The District contracts with Municipal Accounts & Consulting, L.P. for bookkeeping services for the District.

### **Engineer**

The District's consulting engineer is Landev Engineers, Inc. (the "Engineer").

### **Auditor**

The financial statements of the District as of March 31, 2018, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

## **Bond Counsel and General Counsel**

Roach & Mitchell, PLLC ("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, Roach & Mitchell, PLLC 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, 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 (the "EPA"). 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 Distribution and Sanitary Sewer Collection and Drainage System**

The System includes water, sanitary sewer, and drainage facilities to serve the subdivisions and commercial tracts described under the sections "THE DISTRICT—Residential Development," "Commercial Development," "Multi-Family Development," and "Other Development".

## **Water Supply**

The District has previously constructed a 1,000 gallon per minute (gpm) water well located at Water Plant No. 1 and a 1,000 gpm water well located at Water Plant No. 2 with proceeds from the Outstanding Bonds. At Water Plant No. 1, the District has two 20,000-gallon pressure tanks, two 211,000 gallon ground storage tanks and three 1,000 gpm booster pumps. Water Plant No. 2 includes one 25,000-gallon pressure tank, one 429,000 gallon ground storage tank and two 1,000 gpm booster pumps.

According to the Engineer, the water supply facilities are sufficient to serve a total of 2,500 equivalent single-family connections ("esfc"). The District currently serves 1,992 esfc and expects to serve approximately 2,169 esfc upon full development under current development plans.

The District has entered into emergency water supply interconnect agreements with Reid Road Municipal Utility District No. 1 and West Harris County Municipal Utility District No. 21.

## **Subsidence District Requirements**

The District is within the boundaries of the Harris Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 1999, the Texas legislature created the North Harris County Regional Water Authority ("Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County. The District is located within the boundaries of the Authority. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District's groundwater well(s) are included within the Authority's GRP. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority's GRP.

The Authority, among other powers, has the power to (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, and charges as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and a rate per 1,000 gallons of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or GRP, the Authority is subject to a disincentive fee penalty of \$8.75 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total annual water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

### **Wastewater Treatment Facilities**

Pursuant to the Wastewater Treatment Facilities and Drainage Facilities Construction and Financing Agreement, dated April 1, 1983, as amended, the District and Reid Road Municipal Utility District No. 1 ("Reid Road No. 1") have financed the construction of a 1,750,000 gpd wastewater treatment plant. The allocation of capacity under such contract is 720,000 gpd to the District and 1,030,000 gpd to Reid Road No. 1.

According to the Engineer, the District's capacity in the wastewater treatment plant is sufficient to serve 2,400 esfc. The District is currently serving 1,992 esfc and expects to serve approximately 2,169 esfc upon full development under current development plans.

### **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" 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, no areas in the District are located within the 100-year flood plain. See "INVESTMENT CONSIDERATIONS—Recent Tropical Weather Events; Hurricane Harvey."

## WATER AND SEWER OPERATIONS

### General

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Although not pledged to the payment of the Bonds or the Outstanding Bonds, net revenues from operations of the District, if any, are available for any lawful purpose including payment of debt service on the Bonds, the Outstanding Bonds, and any additional bonds issued by the District, at the discretion and upon action of the Board. It is not anticipated that any revenues will be available for the payment of debt service on the Bonds.

### Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for the fiscal years ended March 31, 2015 through 2018 and an unaudited summary for the period April 1, 2018 through January 31, 2019 provided by the District's bookkeeper. Reference is made to such records and statements for further and more complete information.

	Fiscal Year Ended March 31					
	4/1/2018 to 1/31/2019 (a)	2018	2017	2016	2015	2014
<b>Revenues</b>						
Property Taxes	\$ 416,438	\$ 997,984	\$ 1,139,444	\$ 781,252	\$ 600,331	\$489,786
Water Service	186,337	241,383	303,922	281,980	295,998	302,023
Wastewater Service	394,019	470,600	450,670	430,229	442,283	446,428
Regional Water Authority Fees	436,619	498,127	420,776	324,680	326,313	282,793
Penalty and Interest	13,809	18,739	14,840	15,057	16,015	16,810
Sales Tax Revenues	599,958	427,921	342,149	277,191	311,365	258,141
Tap Connection and Inspection Fees	4,630	166,635	3,270	112,915	370,779	47,370
Investment Revenues	33,521	25,901	15,413	11,530	10,574	9,175
Miscellaneous	9,840	9,098	11,153	20,772	8,872	96,176
<b>Total Revenues</b>	<b>\$ 2,095,170</b>	<b>\$ 2,856,388</b>	<b>\$ 2,701,637</b>	<b>\$ 2,255,606</b>	<b>\$ 2,382,530</b>	<b>\$1,948,702</b>
<b>Expenditures</b>						
Professional Fees	\$ 110,301	\$ 200,269	\$ 191,174	\$ 130,185	\$ 135,504	\$103,118
Contracted Services	27,492	348,179	347,842	339,273	321,366	320,696
Purchased Wastewater Service	197,043	261,676	210,707	208,021	221,335	205,095
Utilities	59,419	67,403	75,865	86,132	81,699	81,878
Regional Water Authority Assessment	610,140	627,203	513,422	399,436	324,338	314,032
Repairs and Maintenance	388,106	414,539	378,504	311,319	260,419	222,841
Other	351,997	225,748	150,567	200,138	269,114	132,831
Capital Outlay	488,686	886,593	356,177	213,888	66,605	47,454
<b>Total Expenditures</b>	<b>\$ 2,233,184</b>	<b>\$ 3,031,610</b>	<b>\$ 2,224,258</b>	<b>\$ 1,888,392</b>	<b>\$ 1,680,380</b>	<b>\$1,427,945</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ (138,014)</b>	<b>\$ (175,222)</b>	<b>\$ 477,379</b>	<b>\$ 367,214</b>	<b>\$ 702,150</b>	<b>\$520,757</b>
<b>Other Sources (Uses)</b>						
Interfund Transfers In (Out)	\$ 39,943	\$ 25,607				
<b>Total Other Financing Sources</b>	<b>\$ 39,943</b>	<b>\$ 25,607</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 3,883,266</b>	<b>\$ 4,032,881</b>	<b>\$ 3,555,502</b>	<b>\$ 3,188,288</b>	<b>\$ 2,486,138</b>	<b>\$1,965,381</b>
<b>Fund Balance (End of Year)</b>	<b>3,825,138</b>	<b>3,883,266</b>	<b>4,032,881</b>	<b>3,555,502</b>	<b>3,188,288</b>	<b>2,486,138</b>

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

## FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2018 Certified Taxable Assessed Valuation .....	\$538,720,748 (a)
Gross Direct Debt Outstanding .....	\$ 7,560,000 (b)
Estimated Overlapping Debt .....	<u>31,132,814 (c)</u>
Gross Direct Debt and Estimated Overlapping Debt .....	<u>\$38,692,814</u>
Ratios of Gross Direct Debt to:	
2018 Certified Taxable Assessed Valuation .....	1.40%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2018 Certified Taxable Assessed Valuation .....	7.18%
Debt Service Funds Available as of January 16, 2019 .....	\$777,178 (d)
Operating Funds Available as of January 16, 2019 .....	\$2,664,890
Capital Projects Funds Available as of January 16, 2019 .....	\$2,943,469

- (a) Assessed Value includes \$508,117,716 of taxable value as certified by the Harris County Appraisal District (the "Appraisal District") and \$30,603,032 of uncertified value, representing the owner's opinion of value on properties in the District not yet certified for 2018, which totals \$538,720,748. See "TAX PROCEDURES."
- (b) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "Overlapping Taxes."
- (d) The District intends to use \$8,000 of available debt service funds towards the purpose for which the Bonds are being issued. See "PLAN OF FINANCING—Sources and Uses of Funds." Neither Texas law nor the Bond Order requires the District to maintain any particular balance in the Debt Service Fund.

### District Investment Policy

The policy of the District is to invest District funds only in instruments which further the following investment objectives of the District stated in order of importance: (1) preservation and safety of principal; (2) liquidity; and (3) yield. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

### Estimated Overlapping Debt

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
Harris County .....	\$ 2,050,758,022	1/31/2019	0.10%	\$ 2,050,758
Harris Co. Department of Education .....	6,555,000	1/31/2019	0.10%	6,555
Harris Co. Flood Control .....	83,075,000	1/31/2019	0.10%	83,075
Harris Co. Hospital District .....	59,490,000	1/31/2019	0.10%	59,490
Cypress-Fairbanks ISD .....	2,965,285,000	1/31/2019	0.90%	26,687,565
Port of Houston Authority .....	593,754,397	1/31/2019	0.10%	593,754
Lone Star College System .....	611,710,000	1/31/2019	0.27%	<u>1,651,617</u>
Total Estimated Overlapping Debt .....				\$ 31,132,814
The District .....	7,560,000 (a)	Current	100.00%	<u>7,560,000</u>
Total Direct and Estimated Overlapping Debt .....				\$ 38,692,814
Ratio of Estimated Direct and Overlapping Debt to 2018 Certified Assessed Valuation .....				7.18%

- (a) The Bonds and the Remaining Outstanding Bonds.

**Overlapping Taxes for 2018**

	2018 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (a).....	\$ 0.629980
Cypress Fairbanks ISD.....	1.440000
Harris County ESD No. 9.....	0.527100
Lone Star College System.....	<u>0.107100</u>
Total Overlapping Tax Rate.....	\$ 2.704180
 The District.....	 <u>\$ 0.340000</u>
Total Tax Rate.....	\$ 3.044180

(a) Includes Harris County, Harris County Flood Control, Harris County Department of Education, Harris County Hospital District, and Port of Houston Authority.

**TAX DATA**

**Tax Collections**

The following statement of tax collections set forth in condensed form is the historical tax collection experience of the District. This summary has been prepared for inclusion herein, based upon information from District records. Reference is made to such records for further and more complete information.

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of January 31, 2019	
				Amount	Percent
2013	\$ 282,687,602	\$ 0.42	\$ 1,187,479	\$ 1,187,375	99.99%
2014	318,057,038	0.40	1,272,814	1,272,756	100.00%
2015	416,373,906	0.37	1,541,205	1,540,688	99.97%
2016	461,021,663	0.35	1,618,379	1,616,788	99.90%
2017	491,140,535	0.35	1,721,894	1,719,215	99.84%
2018	538,051,610	0.35	1,726,917	(a)	(a)

(a) Tax collection in progress. As of February 20, 2019, the District is approximately 96% collected for 2018.

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 21<sup>st</sup> day after such taxes are billed. No split payments are allowed and no discounts are allowed.

**Tax Rate Distribution**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Debt Service	\$ 0.14	\$ 0.15	\$ 0.15	\$ 0.14	\$ 0.21
Maintenance and Operations	0.20	0.20	0.20	0.23	0.19
Total	<u>\$ 0.34</u>	<u>\$ 0.35</u>	<u>\$ 0.35</u>	<u>\$ 0.37</u>	<u>\$ 0.40</u>

**Tax Rate Limitations**

Debt Service: Unlimited (no legal limit as to rate or amount).  
Maintenance: Unlimited (no legal limit as to rate or amount).

## 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 \$0.14 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. On August 12, 1978, voters in the District authorized the Board to levy such a maintenance tax not limited as to rate or amount. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds and any additional waterworks and sewer system combination unlimited 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.

## Principal Taxpayers

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the certified portion (\$508,117,716) 2018 tax roll, which reflects ownership at January 1, 2018. A principal taxpayer list related to the uncertified portion (\$30,603,032) of the 2018 tax roll is not available.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>% of 2018 Certified Taxable Assessed Valuation</u>
Sun Life Assurance Co. of Canada	Land & Improvement	\$ 64,684,047	12.73%
Prologis LP	Land & Improvement	54,585,893	10.74%
Sealy Sam Houston Business Park	Land & Improvement	33,292,726	6.55%
Exeter 10720 Sam Houston LP	Land & Improvement	30,500,000	6.00%
BRE Silver MF Cypress TX LP	Land & Improvement - (Apartments)	30,097,668	5.92%
Liberty Property LP	Land & Improvement	29,795,018	5.86%
10801 Legacy Park Owner LLC	Land & Improvement - (Apartments)	20,838,125	4.10%
Exeter 10910 W Sam Houston LP	Land & Improvement	12,935,679	2.55%
Lennox Industries	Personal Property	9,820,065	1.93%
Fallbrook Investments Ltd.	Land & Improvement	9,434,062	1.86%
Total		\$ 295,983,283	58.25%

## Summary of Assessed Valuation

The following breakdown of the 2014 through 2018 Certified Assessed Valuation has been provided by the District's Tax Assessor/Collector based on information contained in the 2014 through 2018 Certified tax rolls of the District. Differences in values from other information herein are due to differences in dates of information provided. A breakdown of the uncertified portion (\$30,603,032) of the 2018 tax roll is not available.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 92,007,663	\$ 96,847,906	\$ 91,848,114	\$ 90,056,182	\$ 71,880,376
Improvements	369,654,816	349,617,264	322,113,486	267,928,847	208,863,702
Personal Property	131,405,176	121,614,120	236,266,836	252,054,323	207,924,296
Exemptions	(85,619,077)	(76,938,755)	(189,206,773)	(193,665,446)	(170,611,336)
Uncertified	30,603,032	-	-	-	-
Total	<u>\$538,051,610</u>	<u>\$491,140,535</u>	<u>\$461,021,663</u>	<u>\$416,373,906</u>	<u>\$318,057,038</u>

## **Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2018 Certified Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of May 1, 2018 and no use of bond funds on hand, and utilize tax rates necessary to pay the District's maximum and average annual debt service requirement. See "INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments."

Average Annual Debt Service Requirement (2019-2038).....	\$512,779
\$0.11 Tax Rate on the 2018 Taxable Assessed Valuation .....	\$562,963
Maximum Annual Debt Service Requirement (2019).....	\$722,598
\$0.15 Tax Rate on the 2018 Taxable Assessed Valuation .....	\$767,677

## **TAXING PROCEDURES**

### **Property Tax Code and County-Wide Appraisal District**

The Texas 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 2019 tax year, the District has granted an exemption of \$35,000 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 2019 tax year, the District has granted a 20% general residential homestead exemption.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. 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 by 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**

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the level of appraisal of a certain category of property, the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption. The District may not, however, protest a valuation of any individual property.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

## **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**

The City of Houston and Harris County may designate all or part of the District as a reinvestment zone, and the District, Harris County, and (if it were to annex the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by 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 a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

## **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 (180<sup>th</sup>) 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.

## **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."

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

The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the Operator, there was no interruption of water and sewer service in the District as a result of Hurricane Harvey. According to the Engineer, the District's system did not sustain any material damage from Hurricane Harvey. To the knowledge of the District, no homes or commercial structures within the District experienced structural flooding as a result of Hurricane Harvey.

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

### **Specific Flood Type Risks**

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

### **Dependence on Principal Taxpayers**

Based on the 2018 certified tax rolls (\$508,117,716), the ten largest landowners are responsible for payment of 58.25% of the District's 2018 taxes. See "THE DISTRICT—Commercial Development," "THE DISTRICT – Multi-Family Development," and "TAX DATA—Principal Taxpayers." The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy a higher tax rate or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Order, nor is it required by Texas law, to maintain any particular balance in its Bond Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis. Further, certain of the largest taxpayers own large buildings which, if vacated, might be difficult to re-lease or re-purpose, leading to a decrease in their taxable value.

### **Dependence on Personal Property Tax Collections**

Approximately 25.86% (\$131,405,176) of the 2018 Certified Taxable Appraised Valuation (\$508,117,716) is personal property. See "TAX DATA—Summary of Assessed Value." Most other utility districts in Texas are not dependent to such an extent on taxes levied on personal property, and the personal property taxation and collection create special risks for Registered Owners. See "TAX DATA—Principal Taxpayers" and "TAX PROCEDURES."

Unlike real property, there is no certainty that personal property will remain in the District from year to year. Automobiles and other personal property are portable and could be removed from the District at any time. Personal property removed from the District as of January 1 of any year is not subject to taxation by the District for that year.

If personal property is subject to a lien for unpaid District taxes for any year, the District lien is lost if the property is sold in the ordinary course of business. However, a lien in the amount of the personal property taxes owed by a taxpayer attaches not only to personal property owned by the taxpayer as of January 1 with a tax situs in the District, but to any personal property then or thereafter owned by the taxpayer. However, the District may not be able to foreclose on personal property located outside the State of Texas and locating and foreclosing on property held outside the District may be costly, inefficient and difficult.

The statute of limitations for collection of personal property taxes is four years from the date of delinquency, which is shorter than the 20-year statute of limitations for real property. Personal property may not be seized and a suit may not be filed to collect delinquent personal property taxes if the tax has been delinquent for more than four years. A tax and any penalty and interest on the tax that is delinquent longer than the limitation periods is presumed paid unless a suit to collect such personal property tax is pending. As with real property taxes, ad valorem taxes levied on personal property are the personal obligation of the taxpayer. See "TAX PROCEDURES."

Heretofore the District has been successful in collecting its ad valorem tax levies including ad valorem taxes levied on personal property located in the District. However, no representation can be made by the District regarding future tax collections. See "TAX DATA—Tax Collections."

### **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 Certified Taxable Assessed Valuation of the District is \$538,720,748. See "FINANCIAL STATEMENT." After issuance of the Bonds, the maximum annual debt service requirement will be \$722,598 (2019) and the average annual debt service requirement will be \$512,779 (2019-2038). Assuming no increase or decrease from the 2018 Certified Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.15 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$722,598 and a tax rate of \$0.11 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$512,779. 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 Outstanding Bonds based upon the 2018 Certified Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. 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**

After the issuance of the Bonds, the District reserves in the Bond Order the right to issue the remaining the \$9,215,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of refunding the outstanding bonds of the District, and the \$1,855,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities for the District and any additional bonds which may be voted hereafter. See “THE BONDS—Issuance of Additional Debt” and “Financing Recreational Facilities.” The issuance of such obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities or recreational facilities must be approved by the Commission. The District can make no representation that any additional development will occur within the District. The Engineer has stated that the District's authorized but unissued bonds and other available District funds are adequate, under present land use projections, to finance the improvements necessary to serve such development. The District has no plans to call an election to authorize additional bonds at this time.

In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS—Issuance of Additional Debt.”

## **Environmental Regulations**

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

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

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

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

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

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

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

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

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB area to reach attainment with the ozone standards by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB area’s economic growth and development.

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

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

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

The TCEQ renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on December 13, 2013. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The renewed MS4 Permit impacts a much greater number of MS4s that were not previously subject to the MS4 Permit and contains more stringent requirements than the standards contained in the previous MS4 Permit. While the District is currently not subject to the MS4 Permit, if the District’s inclusion were required at a future date, the District could incur substantial costs to develop and implement the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the renewed MS4 Permit. The TCEQ has published notice of a proposed renewal of the Phase II (Small) MS4 Permit that is intended to be issued prior to the December 12, 2018 expiration date of the current MS4 Permit.

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

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

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

Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. If the CWR is not rescinded and is ultimately upheld and goes into effect, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of the expanded scope of jurisdictional “waters of the United States” under the CWR.

### **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**

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 Beneficial Owners have the right to seek 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 Beneficial 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 Beneficial 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. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Beneficial 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 Beneficial 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.

### **Bankruptcy Limitation to Registered Owners' Rights**

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (1) is authorized to file for federal bankruptcy protection by Texas 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. Under Texas law, the District must also obtain the approval of the Commission prior to filing bankruptcy. Such law requires that the Commission investigate the financial conditions of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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 the District decides in the future to proceed voluntarily under the federal Bankruptcy Code, the District could develop and file a plan for the adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect the Registered Owners by reducing or eliminating the interest rate or the principal amount, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the 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 "TAX MATTERS."

### **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.

### **Future and Proposed Legislation**

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

### **2019 Legislative Session**

The 86th Regular Legislative Session convened on January 8, 2019, and will conclude on May 27, 2019. The Texas Legislature will likely enact laws that materially change current laws affecting ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which could adversely affect the marketability or market value of the Bonds. The Governor of Texas has declared property tax reform as an emergency item for the legislative session, with the result that any property tax reform legislation may become effective within the first 60 days of the legislative session. In addition, the Governor may call one or more additional special sessions that may include legislation affecting property taxes. The District can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.

### **Risk Factors Related to the Purchase of 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.



## MUNICIPAL BOND RATING

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

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

## MUNICIPAL BOND INSURANCE

### **Bond Insurance Policy**

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

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

### **Assured Guaranty Municipal Corp.**

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

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

### *Current Financial Strength Ratings*

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

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

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

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### *Capitalization of AGM*

At December 31, 2018:

- The policyholders' surplus of AGM was approximately \$2,533 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,034 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,873 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

### *Incorporation of Certain Documents by Reference*

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

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

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

### *Miscellaneous Matters*

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

## LEGAL MATTERS

### Legal Opinion

The District will furnish the Underwriter a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied without limitation as to rate or amount upon all taxable property within the District. The District also will furnish the approving legal opinion of Roach & Mitchell, PLLC, Houston, Texas, Bond Counsel to the District (“Bond Counsel”), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property located within the District and that interest on the bonds is excludable from gross income for federal income tax purposes under existing laws except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application affecting rights of creditors of political subdivisions such as the District and matters described under the caption which follows entitled “TAX MATTERS.”

In addition to serving as Bond Counsel, Roach & Mitchell, PLLC, also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton, L.L.P., Houston, Texas. McCall, Parkhurst & Horton, L.L.P. has previously acted as Disclosure Counsel for the District on certain new money financings.

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 its capacity as Bond Counsel, Roach & Mitchell, PLLC has reviewed the information appearing in this Official Statement under the captions “PLAN OF FINANCING-Refunded Bonds” and “Payment of Refunded Bonds,” “THE BONDS,” “TAXING PROCEDURES,” “THE DISTRICT—General” and “—Strategic Partnership Agreement,” “LEGAL MATTERS,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

## TAX MATTERS

### Opinion

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

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

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

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

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

### **Federal Income Tax Accounting Treatment of Original Discount Bonds**

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

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

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

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

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

## **Federal Income Tax Accounting Treatment of Premium Bonds**

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

## **Collateral Federal Income Tax Consequences**

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

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

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

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

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

## **State, Local and Foreign Taxes**

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

## **Qualified Tax-Exempt Obligations**

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.

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

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

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

### **VERIFICATION OF MATHEMATICAL CALCULATIONS**

Public Finance Partners LLC will deliver to the 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 on deposit in the Deposit Account, 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; (c) compliance with 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.

### **REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS**

The offer and sale of the Bonds have not been registered or qualified 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 jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated 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 provisions.

### **NO MATERIAL ADVERSE CHANGE**

The obligations of the Underwriter to take and pay for the Bonds, and the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the 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 the sale.

### **NO-LITIGATION CERTIFICATE**

With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Underwriter a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

## 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 DISTRICT"—Landev Engineers, Inc.; "TAX PROCEDURES"—Roach & Mitchell, PLLC; "THE SYSTEM"—Landev Engineers, Inc.; "THE BONDS," "LEGAL MATTERS" and "TAX MATTERS"—Roach & Mitchell, PLLC; "FINANCIAL STATEMENT" and "TAX DATA"—Harris County Appraisal District, Equi-Tax, Inc. and 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, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### Consultants

In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," and "THE SYSTEM" (as it relates to District facilities) has been provided by Landev Engineers, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the Assessed Valuations of the District 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 Equi-Tax, Inc., and is included herein in reliance upon Equi-Tax, Inc. as an expert in collecting taxes.

Auditor: The financial statements of the District as of March 31, 2018, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

## 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 Rule 15c(2)-12(f)(2) of the United States Securities and Exchange Commission (the "SEC")), 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**

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) (collectively, the “Rule”) regarding the District’s continuing disclosure obligations because the District has less than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. As required by the exemption, in the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system.

### **Annual Reports**

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided with respect to the District will be the District’s audited financial statements and supplemental schedules as found in “APPENDIX A—District’s Audited Financial Statements.” Any information concerning the District so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation and audited if the audit report is completed within the period during which it must be provided. If the audit report of the District is not complete within such period, then the District shall provide unaudited financial statements for the fiscal year within six months of the end of the fiscal year and audited financial statements when the audit report becomes available. The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2019.

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

The District's current fiscal year end is March 31. Accordingly, it must provide updated information by September 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.

### **Specified 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 (CFR 240); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the CFR 240 or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the CFR 240, other than in the ordinary course of business, the entry into a



definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (15) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

#### **Availability of Information from the MSRB**

The District has agreed to provide the foregoing information only to the MSRB. Investors can access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://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 its continuing disclosure undertakings.

### **MISCELLANEOUS**

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

/s/ Sean Allen  
President, Board of Directors

ATTEST:

/s/ Keith Austin  
Secretary, Board of Directors

**APPENDIX A**

**Financial Statement of the District for the year ended March 31, 2018**

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MARCH 31, 2018**



**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MARCH 31, 2018**



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# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

*Certified Public Accountants*

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Reid Road Municipal  
Utility District No. 2  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Reid Road Municipal Utility District No. 2 (the "District"), as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



Board of Directors  
Reid Road Municipal  
Utility District No. 2

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

July 18, 2018



**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2018**

Management's discussion and analysis of Reid Road Municipal Utility District No. 2's (the "District") financial performance provides an overview of the District's financial activities for the year ended March 31, 2018. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

**FUND FINANCIAL STATEMENTS**

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2018**

**FUND FINANCIAL STATEMENTS (Continued)**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$8,829,135 as of March 31, 2018.

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

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	<u>Summary of Changes in the Statement of Net Position</u>		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 5,372,270	\$ 5,695,001	\$ (322,731)
Capital Assets (Net of Accumulated Depreciation)	<u>8,976,495</u>	<u>5,556,545</u>	<u>3,419,950</u>
Total Assets	<u>\$ 14,348,765</u>	<u>\$ 11,251,546</u>	<u>\$ 3,097,219</u>
Due to Developer	\$ 3,087,793	\$ 67,467	\$ (3,020,326)
Long -Term Liabilities	2,029,638	2,526,423	496,785
Other Liabilities	<u>402,199</u>	<u>307,583</u>	<u>(94,616)</u>
Total Liabilities	<u>\$ 5,519,630</u>	<u>\$ 2,901,473</u>	<u>\$ (2,618,157)</u>
Net Position:			
Net Investment in Capital Assets	\$ 4,354,080	\$ 3,824,457	\$ 529,623
Restricted	571,633	464,599	107,034
Unrestricted	<u>3,903,422</u>	<u>4,061,017</u>	<u>(157,595)</u>
Total Net Position	<u>\$ 8,829,135</u>	<u>\$ 8,350,073</u>	<u>\$ 479,062</u>

The following table provides a summary of the District's operations for the years ended March 31, 2018, and March 31, 2017. The District's net position increased by \$479,062, accounting for an 5.7% increase in net position.

	<u>Summary of Changes in the Statement of Activities</u>		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,731,855	\$ 1,842,554	\$ (110,699)
Charges for Services	1,402,546	1,203,687	198,859
Other Revenues	<u>474,600</u>	<u>373,744</u>	<u>100,856</u>
Total Revenues	<u>\$ 3,609,001</u>	<u>\$ 3,419,985</u>	<u>\$ 189,016</u>
Expenses for Services	<u>3,129,939</u>	<u>2,297,241</u>	<u>(832,698)</u>
Change in Net Position	\$ 479,062	\$ 1,122,744	\$ (643,682)
Net Position, Beginning of Year	<u>8,350,073</u>	<u>7,227,329</u>	<u>1,122,744</u>
Net Position, End of Year	<u>\$ 8,829,135</u>	<u>\$ 8,350,073</u>	<u>\$ 479,062</u>

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of March 31, 2018, were \$4,925,334, a decrease of \$408,520 from the prior year.

The General Fund fund balance decreased by \$149,615 due to operating and capital costs exceeding tax and service revenues.

The Debt Service Fund fund balance increased by \$113,812, primarily due to the structure of the District's debt service requirements.

The Capital Projects Fund fund balance decreased by \$372,717, primarily due to the use of bond proceeds to fund projects.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual net expenditures in excess of revenues were \$713,205 more than budgeted.

**CAPITAL ASSETS**

The District's capital assets as of March 31, 2018, total \$8,976,495 (net of accumulated depreciation). These capital assets include land, as well as the water and wastewater systems. Significant capital asset activity completed during the current year included the Wilbern School Park Site phase 4 improvements; generator building and storage building at water plant no. 1; driveway repair; asphalt extension at lift station no. 2; clarifier electrical upgrades at the wastewater treatment plant; water and wastewater facilities to serve Legacy at Fallbrook, phase 1; water, wastewater, lift station and detention facilities to serve Northwest Crossroads; water, wastewater and detention facilities to serve Sam Houston Business Park; and land acquisition for a lift station and detention pond. Significant construction in progress at year-end included various improvements at the wastewater treatment plant.



**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2018**

**CAPITAL ASSETS (Continued)**

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 788,499	\$ 329,675	\$ 458,824
Construction in Progress	678,625	152,477	526,148
Capital Assets, Net of Accumulated Depreciation:			
Park	507,006	377,148	129,858
Water System	3,382,014	2,551,229	830,785
Wastewater System	2,269,803	1,384,363	885,440
Detention System	621,631		621,631
Interest in Harvest Bend Regional Wastewater Treatment Plant	728,917	761,653	(32,736)
Total Net Capital Assets	\$ 8,976,495	\$ 5,556,545	\$ 3,419,950

Additional information on the District's capital assets can be found in Note 6 of this report.

**LONG-TERM DEBT ACTIVITY**

At the end of the current year, the District had total bond debt payable of \$2,065,000.

The changes in the debt position of the District during the year ended March 31, 2018, are summarized as follows:

Bond Debt Payable, April 1, 2017	\$ 2,565,000
Less: Bond Principal Paid	500,000
Bond Debt Payable, March 31, 2018	\$ 2,065,000

The District Series 2009 bonds carry an underlying rating of "A" and carry an "AA" insured rating by virtue of bond insurance issued by Assured Guaranty Corporation. The Series 2012 Refunding Bonds are not rated. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The above ratings are as of March 31, 2018, and reflect all rating changes of the bond insurers through the year then ended.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Reid Road Municipal Utility District No. 2, c/o Roach & Mitchell, PLLC, 2800 Post Oak Blvd., Suite 4100, Houston, TX 77056.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2018**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 28,471	\$ 48,743
Investments	3,299,623	556,394
Receivables:		
Property Taxes	20,156	15,133
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$-0-)	88,359	
Accrued Interest	14,476	
Other	1,851	
Due from City of Houston	121,243	
Due from Other Funds	669,201	
Prepaid Costs	22,296	
Advance for Regional Wastewater Treatment Plant Operations	18,000	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<b>\$ 4,283,676</b>	<b>\$ 620,270</b>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 1,134,008	\$ 1,211,222 3,856,017	\$	\$ 1,211,222 3,856,017
	35,289		35,289
		3,517	3,517
	88,359		88,359
	14,476		14,476
	1,851		1,851
	121,243		121,243
	669,201	(669,201)	
	22,296		22,296
	18,000		18,000
		788,499	788,499
		678,625	678,625
		<u>7,509,371</u>	<u>7,509,371</u>
<u>\$ 1,134,008</u>	<u>\$ 6,037,954</u>	<u>\$ 8,310,811</u>	<u>\$ 14,348,765</u>

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2018**

	General Fund	Debt Service Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 200,517	\$
Due to Developer	5,931	
Retainage Payable	53,008	
Due to Other Funds		24,635
Due to Taxpayers		27,519
Security Deposits	120,798	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	\$ 380,254	\$ 52,154
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 20,156	\$ 15,133
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 22,296	\$
For Regional Wastewater Treatment Plant		
Operations	18,000	
Restricted for Authorized Construction		
Restricted for Debt Service		552,983
Unassigned	3,842,970	
<b>TOTAL FUND BALANCES</b>	\$ 3,883,266	\$ 552,983
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	\$ 4,283,676	\$ 620,270
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 357	\$ 200,874	\$	\$ 200,874
	5,931	3,081,862	3,087,793
	53,008		53,008
644,566	669,201	(669,201)	
	27,519		27,519
	120,798		120,798
		490,000	490,000
		1,539,638	1,539,638
<u>\$ 644,923</u>	<u>\$ 1,077,331</u>	<u>\$ 4,442,299</u>	<u>\$ 5,519,630</u>
<u>\$ -0-</u>	<u>\$ 35,289</u>	<u>\$ (35,289)</u>	<u>\$ -0-</u>
\$	\$ 22,296	\$ (22,296)	\$
	18,000	(18,000)	
489,085	489,085	(489,085)	
	552,983	(552,983)	
	3,842,970	(3,842,970)	
<u>\$ 489,085</u>	<u>\$ 4,925,334</u>	<u>\$ (4,925,334)</u>	<u>\$ - 0 -</u>
<u>\$ 1,134,008</u>	<u>\$ 6,037,954</u>		
		\$ 4,354,080	\$ 4,354,080
		571,633	571,633
		<u>3,903,422</u>	<u>3,903,422</u>
		<u>\$ 8,829,135</u>	<u>\$ 8,829,135</u>

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**MARCH 31, 2018**

Total Fund Balances - Governmental Funds	\$	4,925,334
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Land, construction in progress and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		8,976,495
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Deferred tax inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District.		38,806
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (3,081,862)	
Bonds Payable	<u>(2,029,638)</u>	<u>(5,111,500)</u>

Total Net Position - Governmental Activities	\$	<u>8,829,135</u>
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The accompanying notes to the financial statements are an integral part of this report.

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**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 997,984	\$ 747,749
Water Service	241,383	
Wastewater Service	470,600	
Regional Water Authority Fees	498,127	
Penalty and Interest	18,739	7,942
Sales Tax Revenues	427,921	
Tap Connection and Inspection Fees	166,635	
Investment Revenues	25,901	5,872
Miscellaneous Revenues	9,098	3,025
<b>TOTAL REVENUES</b>	<b>\$ 2,856,388</b>	<b>\$ 764,588</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 200,269	\$ 2,377
Contracted Services	348,179	35,334
Purchased Wastewater Service	261,676	
Utilities	67,403	
Regional Water Authority Assessment	627,203	
Repairs and Maintenance	414,539	
Depreciation		
Other	225,748	8,060
Capital Outlay	886,593	
Debt Service:		
Bond Principal		500,000
Bond Interest		105,005
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 3,031,610</b>	<b>\$ 650,776</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (175,222)</b>	<b>\$ 113,812</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In (Out)	\$ 25,607	\$ -0-
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (149,615)</b>	<b>\$ 113,812</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - APRIL 1, 2017</b>	<b>4,032,881</b>	<b>439,171</b>
<b>FUND BALANCES/NET POSITION - MARCH 31, 2018</b>	<b>\$ 3,883,266</b>	<b>\$ 552,983</b>

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



Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,745,733	\$ (13,878)	\$ 1,731,855
	241,383		241,383
	470,600		470,600
	498,127		498,127
	26,681	(880)	25,801
	427,921		427,921
	166,635		166,635
2,783	34,556		34,556
	12,123		12,123
\$ 2,783	\$ 3,623,759	\$ (14,758)	\$ 3,609,001
\$ 4,702	\$ 207,348	\$ 11,161	\$ 218,509
	383,513		383,513
	261,676		261,676
	67,403		67,403
	627,203		627,203
344,973	759,512		759,512
		469,877	469,877
218	234,026		234,026
	886,593	(886,593)	
	500,000	(500,000)	
	105,005	3,215	108,220
\$ 349,893	\$ 4,032,279	\$ (902,340)	\$ 3,129,939
\$ (347,110)	\$ (408,520)	\$ 887,582	\$ 479,062
\$ (25,607)	\$ -0-	\$ -0-	\$ -0-
\$ (372,717)	\$ (408,520)	\$ 408,520	\$
		479,062	479,062
861,802	5,333,854	3,016,219	8,350,073
\$ 489,085	\$ 4,925,334	\$ 3,903,801	\$ 8,829,135

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$ (408,520)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	(13,878)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	(880)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(469,877)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	875,432
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	500,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	(3,215)
Change in Net Position - Governmental Activities	<u>\$ 479,062</u>

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 1. CREATION OF DISTRICT**

Reid Road Municipal Utility District No. 2 (the “District”) was created effective June 29, 1978, by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection, disposal and recycling. In some cases the District can provide for construction of parks and recreational facilities for the residents of the District with voter approval. The Board of Directors held its first meeting on July 12, 1978, and the first bonds were sold on March 31, 1981.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units. The District is a participant in the joint venture for the operation of a regional wastewater treatment plant. Oversight of the joint venture is by a joint meeting of the District with Reid Road Municipal Utility District No. 1 (“District No. 1”). The joint venture is accounted for in the financial statements of District No. 1 in a Special Revenue Fund. Copies of financial statements on the plant can be obtained by contacting District No. 1’s auditor, McCall Gibson Swedlund Barfoot PLLC, in Houston, Texas.

Financial Statement Presentation

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due. The District has applied a current accounting standard that provides for an exception to the basic concept that general long-term indebtedness is not reported as an expenditure until the amount becomes due and payable. This exception allows the District to record the April 1, 2018, debt service payments as expenditures during the current fiscal year.

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting (Continued)

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

Capital Assets

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

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

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

Budgeting

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

Pensions

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus

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

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

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

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

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

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

*Unassigned*: all other spendable amounts in the General Fund.

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounting Estimates

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

**NOTE 3. LONG-TERM DEBT**

	Series 2009	Refunding Series 2012
Amount Outstanding - March 31, 2018	\$1,685,000	\$380,000
Interest Rates	4.30% - 5.30%	2.05%
Maturity Dates – Serially Beginning/Ending	April 1, 2019/2029	April 1, 2019
Interest Payment Dates	April 1/ October 1	April 1/ October 1
Callable Dates	April 1, 2019 *	Non-Callable

\* Or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. Series 2009 term bonds maturing on April 1, 2025, April 1, 2027, and April 1, 2029, are subject to mandatory redemption beginning April 1, 2024, April 1, 2026, and April 1, 2028, respectively.



**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 3. LONG-TERM DEBT (Continued)**

The following is a summary of transactions regarding long-term liabilities for the year ended March 31, 2018:

	April 1, 2017	Additions	Retirements	March 31, 2018
Bonds Payable	\$ 2,565,000		\$ 500,000	\$ 2,065,000
Unamortized Discounts	(38,577)		(3,215)	(35,362)
Bonds Payable, net	\$ 2,526,423	\$ -0-	\$ 496,785	\$ 2,029,638
		Amount Due Within One Year		\$ 490,000
		Amount Due After One Year		1,539,638
		Bonds Payable, net		\$ 2,029,638

As of March 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 490,000	\$ 92,287	\$ 582,287
2020	120,000	79,768	199,768
2021	125,000	74,367	199,367
2022	135,000	68,493	203,493
2023	140,000	61,945	201,945
2024-2028	850,000	192,605	1,042,605
2029	205,000	10,865	215,865
	\$ 2,065,000	\$ 580,330	\$ 2,645,330

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.

During the year ended March 31, 2018, the District levied an ad valorem debt service tax rate of \$0.15 per \$100 of assessed valuation, which resulted in a tax levy of \$775,186 on the adjusted taxable valuation of \$516,564,516 for the 2017 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy. The District's tax calendar is as follows:

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

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS**

- A. The Bond Orders state that any profits realized from or interest accruing on investments shall belong to the fund from which the monies for such investments were taken; provided, however, that at the discretion of the Board of Directors, the profits realized from and interest accruing on investments made from any fund may be transferred to the Debt Service Fund.
- B. The Bond Orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to each nationally recognized municipal securities information depository and the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$3,731,222 and the bank balance was \$3,907,722. The District was not exposed to custodial credit risk at year-end.

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

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 28,471	\$ 2,520,000	\$ 2,548,471
DEBT SERVICE FUND	48,743		48,743
CAPITAL PROJECTS FUND	1,134,008		1,134,008
TOTAL DEPOSITS	\$ 1,211,222	\$ 2,520,000	\$ 3,731,222

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments

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

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

The District also invests in Texas Cooperative Liquid Assets Securities System (“Texas CLASS”). Texas CLASS is a public funds investment pool which has operated since 1996. The pool seeks to provide safety, liquidity, convenience and competitive rates of return for Texas public sector investors such as municipal utility districts. Public Trust Advisors, LLC serves as the pool’s administrator and investment advisor. Texas CLASS meets the criteria established in GASB Statement No. 79 and measures portfolio assets at amortized cost. As a result, the District also measures its investments in Texas CLASS at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from Texas CLASS.

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

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 779,623	\$ 779,623
Certificates of Deposit	2,520,000	2,520,000
<u>DEBT SERVICE FUND</u>		
Texas CLASS	556,394	556,394
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 3,856,017</u></b>	<b><u>\$ 3,856,017</u></b>

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As of March 31, 2018, the District investments in Texas CLASS was rated “AAAm” by Standard and Poor’s. The District manages credit risk by investing in certificates of deposit with balances below FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in Texas CLASS to have a maturity of less than one year due to the fact that the share positions can usually be redeemed each day at the discretion of the District, unless there have been significant changes in values. The District manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

Restrictions

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

All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 6. CAPITAL ASSETS**

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

	April 1, 2017	Increases	Decreases	March 31, 2018
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 329,675	\$ 458,824	\$	\$ 788,499
Construction in Progress	<u>152,477</u>	<u>875,432</u>	<u>349,284</u>	<u>678,625</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 482,152</u>	<u>\$ 1,334,256</u>	<u>\$ 349,284</u>	<u>\$ 1,467,124</u>
<b>Capital Assets Subject to Depreciation</b>				
Park	\$ 595,696	\$ 199,656	\$	\$ 795,352
Water System	4,174,595	983,241		5,157,836
Wastewater System	2,220,817	1,050,690		3,271,507
Detention System		661,947		661,947
Interest in Harvest Bend Regional Wastewater Treatment Plant	<u>1,771,833</u>	<u>9,321</u>		<u>1,781,154</u>
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 8,762,941</u>	<u>\$ 2,904,855</u>	<u>\$ - 0 -</u>	<u>\$ 11,667,796</u>
<b>Accumulated Depreciation</b>				
Park	\$ 218,548	\$ 69,798	\$	\$ 288,346
Water System	1,623,366	152,456		1,775,822
Wastewater System	836,454	165,250		1,001,704
Detention System		40,316		40,316
Interest in Harvest Bend Regional Wastewater Treatment Plant	<u>1,010,180</u>	<u>42,057</u>		<u>1,052,237</u>
<b>Total Accumulated Depreciation</b>	<u>\$ 3,688,548</u>	<u>\$ 469,877</u>	<u>\$ - 0 -</u>	<u>\$ 4,158,425</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 5,074,393</u>	<u>\$ 2,434,978</u>	<u>\$ - 0 -</u>	<u>\$ 7,509,371</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 5,556,545</u>	<u>\$ 3,769,234</u>	<u>\$ 349,284</u>	<u>\$ 8,976,495</u>

The District has financed drainage facilities which are being maintained by other entities for maintenance.

**NOTE 7. MAINTENANCE TAX**

On August 12, 1978, the voters of the District approved the levy and collection of a maintenance tax in an unlimited amount. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

During the year ended March 31, 2018, the District levied an ad valorem maintenance tax rate of \$0.20 per \$100 of assessed valuation, which resulted in a tax levy of \$1,033,582 on the adjusted taxable valuation of \$516,564,516 for the 2017 tax year.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 8. JOINT VENTURE FOR REGIONAL WASTE TREATMENT PLANT**

On April 1, 1983, the District entered into a 40 year contract with District No. 1 for the construction, operation and maintenance of a regional waste treatment plant. On June 1, 1987, the agreement was amended to provide for the financing of the acquisition, installation, operation and maintenance of an emergency power generator and certain other improvements. On February 26, 1991, a second amendment to the contract was executed relative to the installation of dechlorination equipment. Also on February 26, 1991, a third amendment of the contract was executed providing for certain revisions and additions to the original agreement further defining and outlining certain operational and administrative procedures and responsibilities between the districts. On March 18, 1992, a fourth amendment was executed defining an equivalent single family connection (“ESFC”) for residential and non-residential connections as total gallons of water billed, divided by 10,000 gallons. The computed ESFC’s would be added to active single family residential units to be used in the allocation of variable monthly costs between the two participants. The districts jointly manage and operate the facilities for the benefit of the participants.

Construction Costs

Construction of and additions to plant facilities are to be shared on a pro rata basis based on the capacity each district acquires. The present plant capacity is as follows:

	Capacity in Gallons per Day	Percentage of Ownership
Reid Road Municipal Utility District No. 1	1,030,000	58.86%
Reid Road Municipal Utility District No. 2	720,000	41.14
	1,750,000	100.00%

Operating Costs

The districts are billed monthly for operating charges. The monthly billing to each district is comprised of fixed and variable costs. Fixed costs are to be shared based on each district’s pro rata share of plant capacity. Variable costs are billed on the basis of ESFCs within each district.

Transactions for the current year are summarized as follows:

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 8. JOINT VENTURE FOR REGIONAL WASTE TREATMENT PLANT**  
(Continued)

Operating Costs (Continued)

	Reid Road Municipal Utility District No. 1	Reid Road Municipal Utility District No. 2	Total
Due from participants, April 1, 2017	\$ 29,028	\$ 20,701	\$ 49,729
Current year billings to Participants	378,814	270,997	649,811
Current year collections	358,051	255,821	613,872
Due from participants, March 31, 2018	\$ 49,791	\$ 35,877	\$ 85,668
Reserve balances at March 31, 2018	\$ 32,000	\$ 18,000	\$ 50,000

Current year billings of \$270,997 include \$261,676 for operating costs and \$9,321 for capital costs.

The following summary audited financial data on the waste treatment plant is presented for the year ended March 31, 2018.

	Special Revenue Fund
Total Assets	\$ 120,391
Total Liabilities	70,391
Total Fund Balance	\$ 50,000
Total Revenues	\$ 650,077
Total Expenditures	650,077
Net Change in Fund Balance	\$ -0-
Fund Balance – April 1, 2017	50,000
Fund Balance – March 31, 2018	\$ 50,000

**NOTE 9. EMERGENCY WATER SUPPLY AGREEMENTS**

On May 20, 1998, the District executed the Amended and Restated Emergency Water Supply Agreement with District No. 1. The agreement superseded previous agreements dated June 1, 1987, and June 21, 1995. The agreement provided for the acquisition and installation of an emergency generator at District No. 1's water plant. The ownership and cost of the generator was based on each district's pro rata share of projected ultimate number of connections within each district. This number was calculated at 55.94% for District No. 1 and 44.06% for the District. During normal operations of the districts, the operation costs of the generator are split 50/50 by

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 9. EMERGENCY WATER SUPPLY AGREEMENTS (Continued)**

each district. Operating costs have been deemed to be fuel costs and operator charges, including routine maintenance such as oil and filter changes and regular exercising of motors and equipment. Maintenance costs, which shall be deemed to be all other operation and maintenance costs, including but not limited to repairs and replacements, are shared on the ownership basis. During a single district emergency, costs will be based on the same allocations of those during normal operations.

On April 19, 2000, the District executed a First Amendment to the May 20, 1998, Agreement amending the rates to be charged for water and on May 18, 2016, the District executed a Second Amendment amending the rates. The rate to be paid to the supplying district for emergency water supplied during a temporary period shall be \$1.00 per 1,000 gallons of water consumed plus the pro-rata share of the cost incurred by the supplying district by virtue of the supplying district's inclusion in the North Harris County Regional Water Authority.

During a joint emergency, the emergency generator will be utilized to provide a source of electrical power to provide a water supply for both districts. During a joint emergency, District No. 1 shall make charges and render bills to both districts on the basis of any joint emergency operation and maintenance costs incurred during a joint emergency. In the case of either a single district emergency or a joint district emergency, if a district does not have the financial ability to make payments as required by the contract, each district has the option of providing payment to the other district in kind. The term of the contract shall be for 40 years.

On April 5, 1994, the District executed an Emergency Water Supply Contract with West Harris County Municipal Utility District No. 21 ("District No. 21"). Effective January 1, 2010, the First Amendment to Emergency Water Supply Contract was approved. Each district constructed facilities to a point of connection with the other. The cost of water supplied will be \$1.00 per thousand gallons of average daily usage plus the then effective pumpage fee of the North Harris County Regional Water Authority for the number of days water is received. The contract will continue in force until December 31, 2019.

**NOTE 10. RISK MANAGEMENT**

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



**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 11. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**

The District is located within the boundaries of the North Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the “Act”), as passed by the 75<sup>th</sup> Texas Legislature, in 1999.

The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority is overseeing that its participants comply with the Harris-Galveston Subsidence District pumpage requirements. The District is required to convert its water supply to surface water over a period of time.

The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. The fee charged during the current fiscal year was \$2.90 per 1,000 gallons of water pumped from each well. The District recorded an expenditure of \$627,203 for fees assessed during the current fiscal year.

**NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT**

Effective December 17, 2011, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas. The agreement provided that in accordance with Subchapter F of the chapter 43 of the Local Government Code and the Act, the City annexed a tract of land defined as the “Tract” for limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Tract within the boundaries of the District. The district continues to develop, to own, and to operate and maintain a water and wastewater system in the District.

All taxable property within the District is not liable for any present or future debts of the City, and current and future taxes levied by the City are not levied on taxable property within the District. The City’s municipal courts have jurisdiction to adjudicate criminal cases filed under the Planning, Zoning, Health and Safety Ordinances and State laws. Provisions of the Regulatory Plan adopted by the City will be applicable to the District and the Tract of land within the District. The District’s assets, liabilities, indebtedness, and obligations will remain the responsibility of the District during the period of this Agreement.

The qualified voters of the Tract may vote in the City elections pursuant to Local Government Code. The City is responsible for notifying the voters within the Tract.

The City imposes a Sales and Use Tax within the boundaries of the Tract. The Sales and Use Tax is imposed on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City agreed to pay the District an amount equal to one-half of all Sales and Use Tax revenues generated within the boundaries of the Tract. The City agreed to deliver to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Comptroller’s office.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT (Continued)**

The City also agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date. During the current fiscal year, the District recorded sales tax revenue of \$427,921, of which \$121,243 was recorded as receivable at year end.

**NOTE 13. INTERFUND RECEIVABLES/PAYABLES**

As of March 31, 2018, the District had the following interfund liabilities: the Debt Service Fund owed the General Fund \$24,635 for maintenance tax collections and the Capital Projects Fund owed the General Fund \$644,566 for construction related-costs. During the current fiscal year, the Capital Projects Fund transferred \$25,607 to the General Fund for repairs and maintenance costs.

**NOTE 14. USE OF SURPLUS FUNDS**

In accordance with Rule 30 T.A.C. 293.83(c) (3) of the Commission, the District approved the use of surplus Capital Projects Fund monies in the amount of \$314,530 for the installation of smart meters in the District and \$56,050 for the cleaning and televising of sanitary sewer lines.

**NOTE 15. UNREIMBURSED COSTS**

The District has executed Utility Development Agreements with Developers within the District. The Agreements call for the Developers to fund costs associated with water, wastewater and detention facilities until such time as the District can sell bonds. The Due to Developer amount of \$3,081,862 was recorded in the Statement of Net Position for assets that were completed and accepted by the District for maintenance as of March 31, 2018. This amount is to be reimbursed from proceeds of future bond issues to the extent approved by the Commission, as applicable, and the Attorney General.

**NOTE 16. BOND APPLICATION**

The District has filed an application with the Commission asking for approval to issue \$5,395,000 of bonds. The application has not yet been approved as of the date of this report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**

**REQUIRED SUPPLEMENTARY INFORMATION**

**MARCH 31, 2018**



**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	Original and Final Budget	Actual	Variance Positive (Negative)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Property Taxes	\$ 917,110	\$ 997,984	\$ 80,874
Water Service	310,000	241,383	(68,617)
Wastewater Service	456,000	470,600	14,600
Regional Water Authority Fee	576,000	498,127	(77,873)
Penalty and Interest	15,000	18,739	3,739
Sales Tax Revenues	318,000	427,921	109,921
Tap Connection and Inspection Fees	3,500	166,635	163,135
Investment Revenues	13,900	25,901	12,001
Miscellaneous Revenues	11,400	9,098	(2,302)
<b>TOTAL REVENUES</b>	<u>\$ 2,620,910</u>	<u>\$ 2,856,388</u>	<u>\$ 235,478</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 158,000	\$ 200,269	\$ (42,269)
Contracted Services	363,000	348,179	14,821
Purchased Wastewater Service	221,996	261,676	(39,680)
Utilities	86,600	67,403	19,197
Regional Water Authority Assessment	576,000	627,203	(51,203)
Repairs and Maintenance	344,000	414,539	(70,539)
Other	137,220	225,748	(88,528)
Capital Outlay	170,504	886,593	(716,089)
<b>TOTAL EXPENDITURES</b>	<u>\$ 2,057,320</u>	<u>\$ 3,031,610</u>	<u>\$ (974,290)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 563,590</u>	<u>\$ (175,222)</u>	<u>\$ (738,812)</u>
<b>OTHER FINANCING SOURCES(USES)</b>			
Transfers In	<u>\$ -0-</u>	<u>\$ 25,607</u>	<u>\$ 25,607</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 563,590	\$ (149,615)	\$ (713,205)
<b>FUND BALANCE - APRIL 1, 2017</b>	<u>4,032,881</u>	<u>4,032,881</u>	<u>          </u>
<b>FUND BALANCE - MARCH 31, 2018</b>	<u>\$ 4,596,471</u>	<u>\$ 3,883,266</u>	<u>\$ (713,205)</u>

See accompanying independent auditor's report.

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**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**  
**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**  
**MARCH 31, 2018**





**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**SCHEDULE OF SERVICES AND RATES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

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

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

**2. RETAIL SERVICE PROVIDERS**

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

Based on the rate order effective July 1, 2017.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 3.77	5,000	N	\$ 1.25 1.75 2.25	5,001 to 14,000 14,001 to 25,000 25,001 and up
WASTEWATER:	\$ 32.16		Y		
SURCHARGE:					
Solid Waste/ Garbage Commission Regulatory Assessments Regional Water Authority Fees Other (Name)			N	\$ 3.19	1,001 and up

District employs winter averaging for wastewater usage? \_\_\_\_\_   X    
Yes                      No

Total monthly charges per 10,000 gallons usage: Water: \$10.02 Wastewater: \$32.16 Surcharge: \$31.90 Total: \$74.08

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**SCHEDULE OF SERVICES AND RATES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	872	860	x 1.0	860
1"	1		x 2.5	
1½"	6	6	x 5.0	30
2"	43	43	x 8.0	344
3"			x 15.0	
4"	2	2	x 25.0	50
6"	3	3	x 50.0	150
8"	5	5	x 80.0	400
10"	1	1	x 115.0	115
Total Water Connections	<u>933</u>	<u>920</u>		<u>1,949</u>
Total Wastewater Connections	<u>906</u>	<u>893</u>	x 1.0	<u>893</u>

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

Gallons pumped into system:	222,860,000	Water Accountability Ratio: 100.0% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	167,457,000	
Gallons sold:	27,910,000	To: <u>West Harris County Municipal Utility District No. 21</u>
	12,000,000	To: <u>Reid Road Municipal Utility District No. 1</u>
Gallons applied to leaks and flushing:	15,493,000	

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**SCHEDULE OF SERVICES AND RATES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

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

Does the District have Debt Service standby fees? Yes  No

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes  No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely  Partly  Not at all

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

Entirely  Partly  Not at all

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes  No

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	General Fund
PROFESSIONAL FEES:	
Auditing	\$ 15,750
Engineering	103,483
Legal	81,036
TOTAL PROFESSIONAL FEES	\$ 200,269
PURCHASED SERVICES FOR RESALE:	
Purchased Wastewater Service	\$ 261,676
CONTRACTED SERVICES:	
Bookkeeping	\$ 27,596
Operations and Billing	63,038
TOTAL CONTRACTED SERVICES	\$ 90,634
UTILITIES:	
Electricity	\$ 64,468
Telephone	2,935
TOTAL UTILITIES	\$ 67,403
REPAIRS AND MAINTENANCE	\$ 414,539
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 12,900
Election Costs	10,604
Insurance	19,870
Legal Notices	528
Office Supplies and Postage	20,299
Payroll Taxes	2,847
Travel and Meetings	3,479
Other	14,241
TOTAL ADMINISTRATIVE EXPENDITURES	\$ 84,768

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

CAPITAL OUTLAY	<u>\$ 886,593</u>
TAP CONNECTIONS	<u>\$ 91,315</u>
SOLID WASTE DISPOSAL	<u>\$ 144,368</u>
SECURITY	<u>\$ 113,177</u>
OTHER EXPENDITURES:	
Chemicals	\$ 13,222
Laboratory Fees	10,933
Permit Fees	4,858
Reconnection Fees	6,222
Inspection Fees	5,735
Regional Water Authority Assessment	627,203
Regulatory Assessment	3,556
Other	<u>5,139</u>
TOTAL OTHER EXPENDITURES	<u>\$ 676,868</u>
TOTAL EXPENDITURES	<u><u>\$ 3,031,610</u></u>

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**INVESTMENTS**  
**MARCH 31, 2018**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0001	Varies	Daily	\$ 779,623	\$
Certificate of Deposit	XXXX0413	1.00%	04/20/18	140,000	1,323
Certificate of Deposit	XXXX0387	1.60%	03/16/19	240,000	158
Certificate of Deposit	XXXX2168	0.65%	04/19/18	240,000	1,475
Certificate of Deposit	XXXX3991	1.10%	08/17/18	100,000	678
Certificate of Deposit	XXXX6236	0.90%	04/15/18	240,000	2,065
Certificate of Deposit	XXXX2134	1.00%	06/27/18	240,000	1,821
Certificate of Deposit	XXXX5218	1.35%	02/25/19	120,000	151
Certificate of Deposit	XXXX9662	1.20%	11/17/18	140,000	617
Certificate of Deposit	XXXX8943	1.10%	07/24/18	240,000	1,808
Certificate of Deposit	XXXX3254	1.10%	08/24/18	240,000	1,584
Certificate of Deposit	XXXX0198	0.83%	05/31/18	240,000	1,654
Certificate of Deposit	XXXX9063	1.30%	01/24/19	240,000	607
Certificate of Deposit	XXXX8085	1.05%	09/26/18	100,000	535
TOTAL GENERAL FUND				<u>\$ 3,299,623</u>	<u>\$ 14,476</u>
<u>DEBT SERVICE FUND</u>					
Texas CLASS	XXXX0003	Varies	Daily	<u>\$ 556,394</u>	<u>\$ -0-</u>
TOTAL - ALL FUNDS				<u>\$ 3,856,017</u>	<u>\$ 14,476</u>

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
APRIL 1, 2017	\$ 28,136		\$ 21,031	
Adjustments to Beginning				
Balance	<u>(43,578)</u>	\$ (15,442)	<u>(33,335)</u>	\$ (12,304)
Original 2017 Tax Levy	\$ 932,403		\$ 699,302	
Adjustment to 2017 Tax Levy	<u>101,179</u>	<u>1,033,582</u>	<u>75,884</u>	<u>775,186</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 1,018,140		\$ 762,882
TAX COLLECTIONS:				
Prior Years	\$ (16,903)		\$ (13,416)	
Current Year	<u>1,014,887</u>	<u>997,984</u>	<u>761,165</u>	<u>747,749</u>
TAXES RECEIVABLE -				
MARCH 31, 2018		<u>\$ 20,156</u>		<u>\$ 15,133</u>
TAXES RECEIVABLE BY				
YEAR:				
2017		\$ 18,695		\$ 14,021
2016		1,092		819
2015		264		161
2014		69		76
2013		19		27
2012		<u>17</u>		<u>29</u>
TOTAL		<u>\$ 20,156</u>		<u>\$ 15,133</u>

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	2017	2016	2015	2014
<b>PROPERTY VALUATIONS:</b>				
Land	\$ 96,843,985	\$ 92,513,314	\$ 78,159,918	\$ 61,312,532
Improvements	372,860,525	358,785,875	248,876,275	220,505,023
Personal Property	123,689,115	234,460,226	251,821,366	214,960,961
Exemptions	(76,829,109)	(188,897,489)	(193,045,358)	(173,652,309)
<b>TOTAL PROPERTY VALUATIONS</b>	<b>\$ 516,564,516</b>	<b>\$ 496,861,926</b>	<b>\$ 385,812,201</b>	<b>\$ 323,126,207</b>
<b>TAX RATES PER \$100 VALUATION:</b>				
Debt Service	\$ 0.15	\$ 0.15	\$ 0.14	\$ 0.21
Maintenance	0.20	0.20	0.23	0.19
<b>TOTAL TAX RATES PER \$100 VALUATION</b>	<b>\$ 0.35</b>	<b>\$ 0.35</b>	<b>\$ 0.37</b>	<b>\$ 0.40</b>
<b>ADJUSTED TAX LEVY*</b>	<b>\$ 1,808,768</b>	<b>\$ 1,743,537</b>	<b>\$ 1,427,337</b>	<b>\$ 1,295,472</b>
<b>PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED</b>	<b>98.19 %</b>	<b>99.89 %</b>	<b>99.97 %</b>	<b>99.98 %</b>

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

Maintenance Tax – Maximum tax rate in unlimited amount per \$100 of assessed valuation approved by voters on August 12, 1978.

See accompanying independent auditor's report.



**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2018**

S E R I E S - 2 0 0 9			
Due During Fiscal Years Ending March 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 110,000	\$ 84,497	\$ 194,497
2020	120,000	79,768	199,768
2021	125,000	74,367	199,367
2022	135,000	68,493	203,493
2023	140,000	61,945	201,945
2024	150,000	54,945	204,945
2025	160,000	47,295	207,295
2026	170,000	39,135	209,135
2027	180,000	30,295	210,295
2028	190,000	20,935	210,935
2029	205,000	10,865	215,865
	\$ 1,685,000	\$ 572,540	\$ 2,257,540

The District records the amount due April 1 as an expenditure in the prior fiscal year. See Note 2. This schedule shows the amounts expended within the fiscal years assuming this practice will continue in the future.

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2018**

REFUNDING SERIES - 2012

Due During Fiscal Years Ending March 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 380,000	\$ 7,790	\$ 387,790
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
	<u>\$ 380,000</u>	<u>\$ 7,790</u>	<u>\$ 387,790</u>

The District records the amount due April 1 as an expenditure in the prior fiscal year. See Note 2. This schedule shows the amounts expended within the fiscal years assuming this practice will continue in the future.

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2018**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 490,000	\$ 92,287	\$ 582,287
2020	120,000	79,768	199,768
2021	125,000	74,367	199,367
2022	135,000	68,493	203,493
2023	140,000	61,945	201,945
2024	150,000	54,945	204,945
2025	160,000	47,295	207,295
2026	170,000	39,135	209,135
2027	180,000	30,295	210,295
2028	190,000	20,935	210,935
2029	205,000	10,865	215,865
	<u>\$ 2,065,000</u>	<u>\$ 580,330</u>	<u>\$ 2,645,330</u>

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED MARCH 31, 2018**

Description	Original Bonds Issued	Bonds Outstanding April 1, 2017
Reid Road Municipal Utility District No. 2 Unlimited Tax Bonds - Series 2009	\$ 2,150,000	\$ 1,790,000
Reid Road Municipal Utility District No. 2 Unlimited Tax Refunding Bonds - Series 2012	<u>2,935,000</u>	<u>775,000</u>
<b>TOTAL</b>	<u><b>\$ 5,085,000</b></u>	<u><b>\$ 2,565,000</b></u>

Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 20,000,000	\$ 14,135,000
Amount Issued	<u>12,750,000</u>	<u>4,820,000</u>
Remaining to be Issued	<u><u>\$ 7,250,000</u></u>	<u><u>\$ 9,315,000</u></u>

\*

Debt Service Fund cash, investments and cash with paying agent balances as of March 31, 2018:	<u>\$ 605,137</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 240,485</u>

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

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding March 31, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
	\$ 105,000	\$ 89,117	\$ 1,685,000	Regions Bank Houston, TX
	<u>395,000</u>	<u>15,888</u>	<u>380,000</u>	Bank of Texas Houston, TX
<u>\$ - 0 -</u>	<u>\$ 500,000</u>	<u>\$ 105,005</u>	<u>\$ 2,065,000</u>	

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 997,984	\$ 1,139,444	\$ 781,252
Water Service	241,383	303,922	281,981
Wastewater Service	470,600	450,670	430,229
Regional Water Authority Fee	498,127	420,776	324,680
Penalty and Interest	18,739	14,840	15,057
Sales Tax Revenues	427,921	342,149	277,191
Tap Connection and Inspection Fees	166,635	3,270	112,915
Investment Revenues	25,901	15,413	11,530
Miscellaneous Revenues	9,098	11,153	20,771
<b>TOTAL REVENUES</b>	<b>\$ 2,856,388</b>	<b>\$ 2,701,637</b>	<b>\$ 2,255,606</b>
<b>EXPENDITURES</b>			
Professional Fees	\$ 200,269	\$ 191,174	\$ 130,185
Contracted Services	348,179	347,842	339,273
Purchased Wastewater Service	261,676	210,707	208,021
Utilities	67,403	75,865	86,132
Regional Water Authority Assessment	627,203	513,422	399,436
Repairs and Maintenance	414,539	378,504	311,319
Other	225,748	150,567	200,138
Capital Outlay	886,593	356,177	213,888
<b>TOTAL EXPENDITURES</b>	<b>\$ 3,031,610</b>	<b>\$ 2,224,258</b>	<b>\$ 1,888,392</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (175,222)</b>	<b>\$ 477,379</b>	<b>\$ 367,214</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	\$ 25,607	\$ -0-	\$ -0-
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (149,615)</b>	<b>\$ 477,379</b>	<b>\$ 367,214</b>
<b>BEGINNING FUND BALANCE</b>	<b>4,032,881</b>	<b>3,555,502</b>	<b>3,188,288</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 3,883,266</b>	<b>\$ 4,032,881</b>	<b>\$ 3,555,502</b>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2015	2014	2018	2017	2016	2015	2014
\$ 600,331	\$ 489,786	34.9 %	42.2 %	34.6 %	25.1 %	25.2 %
295,998	302,023	8.5	11.2	12.5	12.4	15.5
442,283	446,428	16.5	16.7	19.1	18.6	22.9
326,313	282,793	17.4	15.6	14.4	13.7	14.5
16,015	16,810	0.7	0.5	0.7	0.7	0.9
311,365	258,141	15.0	12.7	12.3	13.1	13.2
370,779	47,370	5.8	0.1	5.0	15.6	2.4
10,574	9,175	0.9	0.6	0.5	0.4	0.5
8,872	96,176	0.3	0.4	0.9	0.4	4.9
<u>\$ 2,382,530</u>	<u>\$ 1,948,702</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 135,504	\$ 103,118	7.0 %	7.1 %	5.8 %	5.7 %	5.3 %
321,366	320,696	12.2	12.9	15.0	13.5	16.5
221,335	205,095	9.2	7.8	9.2	9.3	10.5
81,699	81,878	2.4	2.8	3.8	3.4	4.2
324,338	314,032	22.0	19.0	17.7	13.6	16.1
260,419	222,841	14.5	14.0	13.8	10.9	11.4
269,114	132,831	7.9	5.6	8.9	11.3	6.8
66,605	47,454	31.0	13.2	9.5	2.8	2.4
<u>\$ 1,680,380</u>	<u>\$ 1,427,945</u>	<u>106.2 %</u>	<u>82.4 %</u>	<u>83.7 %</u>	<u>70.5 %</u>	<u>73.2 %</u>
<u>\$ 702,150</u>	<u>\$ 520,757</u>	<u>(6.2) %</u>	<u>17.6 %</u>	<u>16.3 %</u>	<u>29.5 %</u>	<u>26.8 %</u>
<u>\$ -0-</u>	<u>\$ -0-</u>					
\$ 702,150	\$ 520,757					
2,486,138	1,965,381					
<u>\$ 3,188,288</u>	<u>\$ 2,486,138</u>					

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 747,749	\$ 835,569	\$ 465,281
Penalty and Interest	7,942	7,722	5,183
Interest on Investments	5,872	2,109	1,247
Miscellaneous Revenues	3,025	690	
<b>TOTAL REVENUES</b>	<b>\$ 764,588</b>	<b>\$ 846,090</b>	<b>\$ 471,711</b>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 44,665	\$ 43,310	\$ 40,485
Debt Service Principal	500,000	505,000	505,000
Debt Service Interest and Fees	106,111	119,013	132,651
<b>TOTAL EXPENDITURES</b>	<b>\$ 650,776</b>	<b>\$ 667,323</b>	<b>\$ 678,136</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 113,812</b>	<b>\$ 178,767</b>	<b>\$ (206,425)</b>
<b>BEGINNING FUND BALANCE</b>	<b>439,171</b>	<b>260,404</b>	<b>466,829</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 552,983</b>	<b>\$ 439,171</b>	<b>\$ 260,404</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>920</b>	<b>920</b>	<b>910</b>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>893</b>	<b>895</b>	<b>883</b>

See accompanying independent auditor's report.



		Percentage of Total Revenue				
2015	2014	2018	2017	2016	2015	2014
\$ 659,041	\$ 721,042	97.8 %	98.8 %	98.6 %	99.2 %	99.2 %
3,542	4,390	1.0	0.9	1.1	0.5	0.6
2,101	1,365	0.8	0.2	0.3	0.3	0.2
5	2	0.4	0.1			
<u>\$ 664,689</u>	<u>\$ 726,799</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 37,611	\$ 37,948	5.8 %	5.1 %	8.6 %	5.7 %	5.2 %
505,000	510,000	65.4	59.7	107.1	76.0	70.2
145,936	158,733	13.9	14.1	28.1	22.0	21.8
<u>\$ 688,547</u>	<u>\$ 706,681</u>	<u>85.1 %</u>	<u>78.9 %</u>	<u>143.8 %</u>	<u>103.7 %</u>	<u>97.2 %</u>
\$ (23,858)	\$ 20,118	<u>14.9 %</u>	<u>21.1 %</u>	<u>(43.8) %</u>	<u>(3.7) %</u>	<u>2.8 %</u>
490,687	470,569					
<u>\$ 466,829</u>	<u>\$ 490,687</u>					
915	903					
891	883					

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**MARCH 31, 2018**

District Mailing Address - Reid Road Municipal Utility District No. 2  
c/o Roach & Mitchell, PLLC  
2800 Post Oak Blvd., Suite 4100  
Houston, TX 77056

District Telephone Number - (832) 971-5519

<b>Board Members</b>	<b>Term of Office (Elected or Appointed)</b>	<b>Fees of Office for the year ended March 31, 2018</b>	<b>Expense Reimbursements for the year ended March 31, 2018</b>	<b>Title</b>
Sean Allen	05/2016 05/2020 (Elected)	\$ 2,100	\$ -0-	President
Vicki Owen	05/2016 05/2020 (Elected)	\$ 4,200	\$ 1,104	Vice President
Keith Austin	05/2016 05/2020 (Elected)	\$ 2,100	\$ -0-	Secretary
Fredrick Phillips	05/2014 05/2018 (Elected)	\$ 2,700	\$ 472	Assistant Secretary
Susan Norris	06/2016 05/2018 (Appointed)	\$ 1,800	\$ 800	Director

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):  
July 20, 2018

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on August 21, 2013. Fees of Office are the amounts actually paid to a Director during the District's fiscal year.

See accompanying independent auditor's report.

**REID ROAD MUNICIPAL UTILITY DISTRICT NO. 2**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**MARCH 31, 2018**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2018</u>	<u>Title</u>
Roach & Mitchell, PLLC	12/01/11	\$ 97,910	Attorney
McCall Gibson Swedlund Barfoot PLLC	08/21/96	\$ 15,750	Auditor
Municipal Accounts & Consulting, L.P.	03/02/05	\$ 31,053	Bookkeeper
Ted Cox, P.C.	06/18/97	\$ 2,420	Delinquent Tax Attorney
Landev Engineers, Inc.	07/12/78	\$ 131,344	Engineer
Hilltop Securities, Inc.	Prior to 04/01/90	\$ -0-	Financial Advisor
Mark Burton	01/18/06	\$ -0-	Investment Officer
Municipal Operations & Consulting, Inc.	04/11/12	\$ 487,493	Operator
Kenneth R. Byrd, RTA	09/14/79	\$ 28,069	Tax Assessor/ Collector

See accompanying independent auditor's report.

**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
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