

OFFICIAL STATEMENT DATED OCTOBER 10, 2019

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

THE 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 (BAM): S&P "AA" (stable outlook)
Underlying Rating: Moody's "A2"
See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" herein.

\$5,270,000
CINCO SOUTHWEST MUNICIPAL UTILITY DISTRICT NO. 2
(A political subdivision of the State of Texas located within Fort Bend County)
UNLIMITED TAX REFUNDING BONDS
SERIES 2019A

Dated: November 1, 2019

Due: September 1, as shown below

The bonds described above (the "Bonds") are obligations solely of Cinco Southwest Municipal Utility District No. 2 (the "District") and are not obligations of the State of Texas, Fort Bend County, the City of Houston or any entity other than the District. Principal of the Bonds is payable at maturity at the principal payment office of the paying agent/registrars, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from November 1, 2019, and is payable each March 1 and September 1, commencing March 1, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form and in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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



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

MATURITY SCHEDULE

Table with 10 columns: Due (September 1), Principal Amount, Interest Rate, Initial Reoffering Yield (a), CUSIP Number (b), Due (September 1), Principal Amount, Interest Rate, Initial Reoffering Yield (a), CUSIP Number (b). Rows include years 2020 through 2026 and 2027 through 2033.

\$235,000 Term Bonds due September 1, 2038 (c), 17240D LC7 (b), 3.00% Interest Rate, 2.49% Yield (a)

- (a) Initial yield represents the initial offering yield to the public which has been established by the Underwriter...
(b) CUSIP numbers have been assigned to the Bonds by CUSIP Service Bureau...
(c) Bonds maturing on or after September 1, 2026, are subject to redemption prior to maturity at the option of the District...

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount levied against all taxable property in the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. Bond purchasers are encouraged to read this OFFICIAL STATEMENT prior to making an investment decision.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Bond Counsel.

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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 Allen Boone Humphries Robinson LLP., 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027-7528 upon payment of the costs of duplication therefor.

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

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

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$5,402,221.48 (representing the par amount of the Bonds of \$5,270,000.00, plus a net premium on the Bonds of \$176,841.50, less an Underwriter’s discount of \$44,620.02) 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.”

Prices and Marketability

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

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

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.

HURRICANE HARVEY

General... The greater Houston area, including Fort Bend County, 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 four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

Impact on the District... According to Inframark Water & Infrastructure Services (the “Operator”), the Master District’s (as defined herein) water, wastewater and drainage system did not sustain any material damage and there was no interruption of water and sewer service during the Hurricane Harvey event. Further, the District did not receive reports that any homes or other improvements within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

THE DISTRICT

Description... The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (“TCEQ”), on May 11, 2005, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District contains approximately 882 acres. See “THE DISTRICT.”

Location... The District is located approximately 25 miles west of the central downtown business district of the City of Houston, Texas in Fort Bend County. The District lies wholly within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. Access to the District is provided via Interstate Highway 10 West and U.S. Highway 59 South to Texas State Highway 99 (the “Grand Parkway”), a limited access state highway, and by the Westpark Toll Road. See “THE DISTRICT—Description and Location.”

Cinco Southwest... The District is one of four municipal utility districts collectively comprising approximately 2,390 acres referred to herein as the Service Area or Cinco Southwest. Cinco Southwest has been developed and marketed as an extension of the Cinco Ranch development, which covers approximately 5,300 adjacent acres and includes more than 10,000 single-family homes. See “CINCO RANCH DEVELOPMENT.”

<i>Status of Development...</i>	Development of the District currently consists of 1,802 completed single-family residential lots on approximately 598 acres. As of September 2019, there were 1,802 homes completed (1,793 occupied) in the District. The average home value for tax year 2019 is approximately \$375,000. Approximately 157 acres in the District are not developable (major streets, easements, open space and recreation), approximately 12 acres have been developed for recreation purposes and approximately 115 acres have been developed for commercial use. Commercial improvements in the District include two emergency care centers, a Lowe’s Home Improvement, a retail center, with an Academy Sports and Outdoors, a Kroger, a Petco, a Spec’s Liquor Store, a Burger King and a Sonic, five additional retail strip centers with various service oriented retail tenants including a Walgreen’s, an orthodontics medical building, a CVS Pharmacy, the British Private Prep School, a Shell gas station, and other service oriented retail including Chase Bank, Bank of America, Regions Bank, Blue Wave Car Wash, Starbucks, and Pei Wei and Salata restaurants. See “THE DISTRICT—Land Use and Status of Development.”
<i>The Master District...</i>	Cinco Southwest Municipal Utility District No. 1 (the “Master District”), as the provider of regional water, sanitary sewer, storm sewer, park, road and other facilities necessary to serve the Service Area (hereinafter collectively referred to as the “Master District Facilities”), has contracted with the District to construct and provide service from the Master District Facilities. The Master District owns and operates the Master District Facilities. The District provides the internal water distribution, wastewater collection and storm drainage utilities and roads within its boundaries. See “WATER, SEWER AND DRAINAGE—Master District Facilities” and “INVESTMENT CONSIDERATIONS—Contract Tax.”
<i>Payment Record...</i>	The District has previously issued \$19,395,000 principal amount of unlimited tax bonds for water, sewer and drainage in three series (the “Water, Sewer and Drainage Bonds”), \$5,575,000 principal amount of unlimited tax road bonds in one series (the “Road Bonds”), \$5,270,000 principal amount of unlimited tax bonds for parks and recreational facilities in two series (the “Park Bonds” and together with the Water, Sewer and Drainage Bonds, the “Water, Sewer, Drainage and Park Bonds”), and \$22,045,000 principal amount of unlimited tax refunding bonds in four series. Collectively, the District has \$23,390,000 principal amount of bonds outstanding (the “Outstanding Bonds”). The District has never defaulted on the payment of debt service on the Outstanding Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

THE BONDS

<i>Description...</i>	The \$5,270,000 Unlimited Tax Refunding Bonds, Series 2019A (the “Bonds”) are being issued pursuant to a resolution authorizing the issuance of such Bonds (the “Bond Resolution”) adopted by the District’s Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature serially on September 1 in each year 2020 through 2033, both inclusive, and as term bonds on September 1, 2038 (the “Term Bonds”) in the principal amounts set forth on the cover page. Interest accrues from November 1, 2019, at the rates per annum set forth on the cover page hereof, and is payable March 1, 2020, and each September 1 and March 1 thereafter, until stated maturity or prior redemption. The Bonds will be issued in denominations of \$5,000 or any integral multiple of \$5,000. See “THE BONDS—Description.”
<i>Book-Entry-Only...</i>	The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK- ENTRY-ONLY SYSTEM.”
<i>Redemption...</i>	Bonds maturing on or after September 1, 2026 are subject to redemption at the option of the District prior to their maturity dates on September 1, 2025, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”
<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 currently refund \$5,210,000 of the Outstanding Bonds in order to achieve net savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$18,180,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED).”

<i>Authority for Issuance...</i>	The Bonds are the fifth series of bonds issued out of an aggregate of \$270,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose, among others, of refunding outstanding bonds of the District. The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS— Authority for Issuance” “—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds and the Remaining Outstanding Bonds are payable from the proceeds of 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 of the District and are not obligations of Fort Bend County, the State of Texas, the City of Houston, or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating...</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), will assign its municipal bond rating of “AA” (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM” or the “Insurer”). Moody’s Investors Service (“Moody’s”) has assigned an underlying rating of “A2” to the Bonds. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND INSURANCE,” “MUNICIPAL BOND RATING” and “APPENDIX B.”
<i>Qualified Tax-Exempt Obligations...</i>	The Bonds have been designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas.
<i>Underwriter’s Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”
<i>Escrow Agent...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “PLAN OF FINANCING—Payment of Refunded Bonds.”
<i>Verification Agent...</i>	Public Finance Partners LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

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 CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$787,003,168 (a)
Gross Direct Debt Outstanding	\$23,450,000 (b)
Estimated Overlapping Debt	<u>86,583,286 (c)</u>
Gross Direct Debt and Estimated Overlapping Debt.....	\$110,033,286
Ratio of Gross Direct Debt to:	
2019 Certified Taxable Assessed Valuation.....	2.98%
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Certified Taxable Assessed Valuation.....	13.98%
Debt Service Funds Available:	
Water, Sewer, Drainage and Parks Debt Service Fund Balance as of October 3, 2019	\$500,247 (d)
Road Debt Service Fund Balance as of October 3, 2019	<u>791,244 (d)</u>
Total Debt Service Funds Available	\$1,291,491 (d)
Operating Funds Available as of October 3, 2019	\$5,174,439
Contract Tax Fund Available as of October 3, 2019	\$193,924
2019 Debt Service Tax Rate.....	\$0.26
2019 Maintenance Tax Rate.....	0.20
2019 Contract Tax Rate.....	<u>0.47</u>
2019 Total Tax Rate	\$0.93
Average Annual Debt Service Requirement (2020-2038).....	\$1,588,267 (b)
Maximum Annual Debt Service Requirement (2020).....	\$2,107,528 (b)
Tax Rate Required to Pay Average Annual Debt Service (2020-2038) at a 95% Collection Rate:	
Based upon 2019 Certified Taxable Assessed Valuation	\$0.22
Tax Rate Required to Pay Maximum Annual Debt Service (2020) at a 95% Collection Rate:	
Based upon 2019 Certified Taxable Assessed Valuation	\$0.29
Status of Development as of September 2019 (e):	
Homes Completed (1,793 occupied).....	1,802
Commercial (e)	
Estimated Population	6,276 (f)

(a) As certified by the Fort Bend Central Appraisal District (the "Appraisal District").

(b) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

(c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."

(d) Although all of the District's debt, including the Remaining Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue will be allocated to the Bonds and the Remaining Outstanding Water, Sewer, Drainage and Park Bonds and a portion will be allocated to the Remaining Outstanding Road Bonds (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds"). The Water, Sewer, Drainage and Park Debt Service Fund is not pledged to the Remaining Outstanding Road Bonds nor are funds on deposit in the Road Debt Service Fund pledged to the Bonds or the Remaining Outstanding Water, Sewer, Drainage and Park Bonds.

(e) See "THE DISTRICT—Land Use" and "—Status of Development."

(f) Based on 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

\$5,270,000

CINCO SOUTHWEST MUNICIPAL UTILITY DISTRICT NO. 2
(A political subdivision of the State of Texas located within Fort Bend County)
UNLIMITED TAX REFUNDING BONDS
SERIES 2019A

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Cinco Southwest Municipal Utility District No. 2 (the “District”) of its \$5,270,000 Unlimited Tax Refunding Bonds, Series 2019A (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, City of Houston Ordinance No. 97-416, an election held within the District and a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”).

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, upon payment of duplication costs.

PLAN OF FINANCING

Purpose

At a bond election held within the District, voters of the District have authorized the issuance of \$270,000,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities, \$30,000,000 principal amount of unlimited tax bonds for park and recreational facilities, \$20,000,000 principal amount of unlimited tax bonds for roads and \$270,000,000 principal amount of unlimited tax bonds for refunding purposes. The District has previously issued \$19,395,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities in three series, \$5,575,000 principal amount of unlimited tax road bonds in one series, \$5,270,000 principal amount of unlimited tax bonds for parks and recreational facilities in two series and \$22,045,000 principal amount of unlimited tax refunding bonds in four series. Collectively, the District has \$23,390,000 principal amount of bonds outstanding (the “Outstanding Bonds”).

The proceeds of the Bonds will be used to currently refund and defease a portion of the District’s Outstanding Bonds totaling \$5,210,000 (the “Refunded Bonds”) in order to achieve a net savings in the District’s debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds” in this section. A total of \$18,180,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”).

See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and “—Outstanding Bonds.”

Refunded Bonds

Proceeds of the Bonds will be applied to currently refund the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

Maturity Date September 1	Series 2009	Series 2012	Series 2012A
2021	\$ 185,000		
2022			
2023		\$ 325,000	
2024		335,000	
2025		345,000	\$ 65,000
2026		355,000	65,000
2027		365,000	65,000
2028		370,000	65,000
2029		380,000	65,000
2030		390,000	65,000
2031		405,000	65,000
2032		415,000	65,000
2033		430,000	65,000
2034			65,000
2035			65,000
2036			65,000
2037			65,000
2038			65,000
	\$ 185,000	\$ 4,115,000	\$ 910,000
Redemption Date:	November 19, 2019	November 19, 2019	November 19, 2019

Sources and Uses of Funds

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

Sources of Funds:

Principal Amount of the Bonds	\$5,270,000.00
Plus: Net Premium on the Bonds	176,841.50
Total Sources of Funds.....	\$5,446,841.50

Uses of Funds:

Deposit to Paying Agent for Refunded Bonds	\$5,248,773.58
Issuance Expenses and Underwriter's Discount (a)	198,067.92
Total Uses of Funds	\$5,446,841.50

(a) Includes municipal bond insurance premium.

Payment of Refunded Bonds

The Refunded Bonds, and the interest due thereon, are to be paid on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A. as paying agent for the Refunded Bonds.

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

THE BONDS

Description

The Bonds will be dated and accrue interest from November 1, 2019, with interest payable each March 1 and September 1, beginning March 1, 2020 (the "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

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

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

Funds

In the Bond Resolution, the Water, Sewer, Drainage and Park Debt Service Fund is confirmed. Because the Bonds will refund Outstanding Water, Sewer, Drainage and Park Bonds, they are considered Water, Sewer, Drainage and Park Bonds and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Resolution will be deposited, as collected, in such fund.

The District also maintains a Road Debt Service Fund that is not pledged to the Water, Sewer, Drainage and Park Bonds, including the Bonds. Funds in the Road Debt Service Fund are not available to pay principal and interest on the Remaining Outstanding Water, Sewer, Drainage and Park Bonds or the Bonds.

Accrued interest on the Bonds will be deposited into the Water, Sewer, Drainage and Park Debt Service Fund upon receipt. Any monies remaining after the refunding of the Refunded Bonds and payment of the issuance costs will be deposited in the Water, Sewer, Drainage and Parks Debt Service Fund.

Redemption Provisions

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

\$235,000 Term Bonds	
Due September 1, 2038	
Mandatory Redemption Date	Principal Amount
2034	\$ 50,000
2035	50,000
2036	45,000
2037	45,000
2038 (maturity)	45,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond, which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Optional Redemption: Bonds maturing on or after September 1, 2026 are subject to redemption at the option of the District prior to their maturity dates on September 1, 2025, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent Interest Payment Date to the date fixed for redemption.

Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). If less than all the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the District prior to the redemption date by such random method as the District shall deem fair and appropriate (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

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

except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest 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.

Authority for Issuance

At a bond election held within the District, voters of the District have authorized the issuance of \$270,000,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds. The Bonds are being issued pursuant to such authorization.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, 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.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the "Book-Entry-Only" System is discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bonds. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

The District's voters have authorized the issuance of \$270,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring waterworks, wastewater and drainage system facilities, \$30,000,000 principal amount of unlimited tax bonds for park and recreational facilities, \$20,000,000 principal amount of unlimited tax bonds for roads and related improvements and \$270,000,000 principal amount of unlimited tax bonds for refunding purposes. The District currently has \$250,605,000 principal amount of unlimited tax bonds for constructing or acquiring waterworks, wastewater and drainage system facilities, \$24,730,000 principal amount of unlimited tax bonds for park and recreational facilities, \$14,425,000 principal amount of unlimited tax bonds for roads and related improvements and, after issuance of the Bonds, the District will have \$267,565,000 principal amount of unlimited tax bonds for refunding of District bonds authorized but unissued. When the District issues park bonds, the outstanding principal amount of all park bonds may not exceed an amount equal to one percent (1%) of the assessed value of the taxable property in the District. See "INVESTMENT CONSIDERATIONS—Future Debt."

The District is also authorized by statute to engage in fire-fighting activities, including the issuance 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) amendments to the existing City of Houston ordinance specifying the purposes for which the District may issue bonds; (b) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (c) approval of the master plan and issuance of bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election to authorize firefighting activities at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Issuance of additional bonds could dilute the investment security for the Bonds

Annexation by the City of Houston

Chapter 42, Local Government Code, provides that, within the limits described therein, the unincorporated area contiguous to the corporate limits of any city comprises that city's extraterritorial jurisdiction. The size of extraterritorial jurisdiction depends in part on the city's population. For the City of Houston, the extraterritorial jurisdiction consists of all the contiguous unincorporated areas, not a part of any other city limits or city's extraterritorial jurisdiction, within five (5) miles of the corporate limits of the City of Houston. With certain exceptions, a city may annex territory only within the confines of its extraterritorial jurisdiction. When a city annexes additional territory, the city's extraterritorial jurisdiction expands in conformity with such annexation.

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

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

Strategic Partnership

The District has entered into a Strategic Partnership Agreement (“SPA”) with the City of Houston. Pursuant to the terms of the SPA, certain commercial tracts within the District have been annexed into the City of Houston for limited purposes and the City of Houston has imposed a one percent (1%) sales and use tax (but no property tax) within the areas of limited-purpose annexation and agreed to remit one-half of such sales and use tax to the District to be used for any lawful District purpose. The District, along with the other districts in the Service Area, has agreed to utilize SPA revenue to pay joint operating and maintenance costs. The Master District, by agreement with the districts in the Service Area, will manage the expenditure of the SPA revenues. Such revenues are not available to pay the principal of or interest on the Bonds.

The SPA further provides that the City may not annex the District for “full purposes” until 30 years from the effective date of the SPA (December 20, 2007). Prior to the full purpose annexation of the District, property within the District is not subject to the City’s ad valorem property tax and District residents are not allowed to vote in City elections.

Consolidation

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government’s sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See “INVESTMENT CONSIDERATIONS—Registered Owners’ Remedies and Bankruptcy Limitations.”

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 Standard & Poor's highest rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Trustee on behalf thereof) as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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.

CINCO RANCH DEVELOPMENT

The District is one of four municipal utility districts, collectively encompassing approximately 2,390 acres in Cinco Southwest. Cinco Southwest is an extension of the Cinco Ranch development, which covers approximately 5,300 adjacent acres and includes approximately 10,000 single-family residential homes.

THE DISTRICT

General

The District is a municipal utility district created by order of the Texas Commission on Environmental Quality (the "TCEQ") on May 11, 2005. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code and Chapter 8225, Texas Special District Local Laws Code.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; to collect, transport, and treat wastewater; to control and divert storm water; to provide parks and recreational facilities and to construct certain roads within its boundaries. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, purchase, construct, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the City of Houston, the TCEQ and the voters of the District. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation of the District from the City of Houston, within whose extraterritorial jurisdiction the District lies, the District is required to observe certain requirements of the City of Houston which (1) limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, drainage, roads, fire-fighting and recreational facilities, (2) require approval by the City of Houston of District construction plans, and (3) permit connections only to single-family lots and commercial or multi-family/commercial platted reserves which have been approved by the Planning Commission of the City of Houston. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "WATER, SEWER AND DRAINAGE—Regulation."

Description and Location

The District consists of approximately 882 acres of land. The District is located in Fort Bend County approximately 25 miles west of the central downtown business district of the City of Houston. The District lies wholly within the extraterritorial jurisdiction of the City of Houston and within the boundaries of Katy Independent School District. Access to the District is currently provided by Interstate Highway 10 West or U.S. Highway 59 South to Texas State Highway 99 (the "Grand Parkway"), a limited access state highway, and the Westpark Toll Road.

Land Use and Status of Development

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

	Approximate <u>Acres</u>	<u>Lots</u>
<i><u>Single-Family Residential</u></i>		
Cinco Southwest 2:		
Section One.....	28	70
Section Two.....	28	104
Section Three.....	28	97
Section Four.....	26	88
Section Five.....	22	55
Section Six.....	16	57
Section Seven.....	23	66
Section Eight.....	33	89
Section Nine.....	31	74
Section Ten.....	18	70
Section Eleven.....	28	88
Section Twelve.....	29	113
Section Thirteen.....	24	93
Section Fourteen.....	17	42
Section Fifteen.....	33	126
Section Sixteen.....	15	55
Section Seventeen.....	26	71
Section Eighteen.....	11	30
Section Nineteen.....	42	121
Section Twenty.....	36	82
Section Twenty-Four.....	22	65
Section Forty-Eight.....	31	65
Section Forty-Nine.....	18	47
Section Seventy-One.....	13	34
<i>Total Single-Family Residential.....</i>	598	1,802
<i>Commercial.....</i>	115	-
<i>Recreation.....</i>	12	-
<i>Non-Developable (a).....</i>	157	-
Totals.....	882	1,802

(a) Includes public rights-of-way, detention, open spaces, easements and utility sites.

Single-Family Residential: Development within the District currently includes the residential subdivisions shown above. The average home value for tax year 2019 is approximately \$375,000. As of September, 2019, there were 1,802 homes completed in the District (1,793 occupied). The estimated population in the District is 6,276, based upon 3.5 persons per occupied single-family residence.

Commercial/Schools: Commercial development within the District consists of two emergency care centers, a Lowe’s Home Improvement, a retail center, with an Academy Sports and Outdoors, a Kroger, a Petco, a Spec’s Liquor Store, a Burger King and a Sonic, five additional retail strip centers with various service oriented retail tenants including a Walgreen’s, an orthodontics medical building, a CVS Pharmacy, the British Private Prep School, a Shell gas station, and other service oriented retail including Chase Bank, Bank of America, Regions Bank, Blue Wave Car Wash, Starbucks, and Pei Wei and Salata restaurants.

Recreation: Recreational amenities within the District include a 6,000 square foot recreation center. This facility includes a swimming pool, a children’s spray park, a children’s garden and a tennis court. There is also an 8 acre central park connected to the main lake and the recreation center, a greenbelt system and numerous open spaces.

MANAGEMENT OF THE DISTRICT

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 four-year terms and elections are held in May in even numbered years only. Three of the Board members reside within the District and the other two Board members own land within the District subject to a note and deed of trust in favor of Terrabrook Cinco Ranch Southwest GP, L.L.C., the developer of Cinco Southwest. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Alan Hirshman	President	May 2022
Gary Kob	Vice President	May 2022
Cregg McGaha	Secretary	May 2022
Whitney Smith	Asst. Vice President	May 2020
Lisa Flores	Asst. Secretary	May 2020

District Consultants

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

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are payable from proceeds of the sale of the Bonds and contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

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

Auditor: The financial statements of the District as of May 31, 2019, and for the year then ended, included in this offering document, have been audited by BKD,LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

Engineer: The District's consulting engineer is BGE, Inc. (the "Engineer").

Bookkeeper: The District has contracted with District Data Services, Inc. (the "Bookkeeper") for bookkeeping services.

Utility System Operator: The operator of the District's water and wastewater system is Inframark Water & Infrastructure Services (the "Operator"). Inframark Water & Infrastructure Services also serves as the operator of the Master District Facilities.

Tax Appraisal: The Fort Bend Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Utility Tax Service, LLC (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

WATER, SEWER AND DRAINAGE

The Master District Contract

Cinco Southwest Municipal Utility District No. 1 (the “Master District”) provides certain water, sanitary sewer, storm sewer, parks, roads and other facilities (collectively, the “Master District Facilities”) necessary to serve the Cinco Southwest development, including the District (the “Service Area”). By execution of the “Second Amended Contract for Financing, Operation, and Maintenance of Regional Water, Sanitary Sewer, Storm Sewer, Park, Road and Other Facilities” (the “Master District Contract”), all of the municipal utility districts in the Service Area, including the District (collectively, the “Cinco Southwest MUDs”), are obligated to pay a pro rata share of debt service on the contract revenue bonds issued by the Master District to finance the Master District Facilities (the “Contract Revenue Bonds”) based upon the certified gross assessed valuation of each district. The Master District Contract also provides for operation and maintenance expenses for Master District Facilities constructed pursuant to the Master District Contract; duties of the parties; establishment and maintenance of funds; assignment; arbitration; amendments; force majeure; insurance; and other provisions.

The Master District Facilities have been and will be financed with the proceeds of Contract Revenue Bonds issued by the Master District. The Master District is authorized to issue Contract Revenue Bonds sufficient to complete acquisition and construction of the Master District Facilities. The District’s pro rata share of the debt service requirements on the Contract Revenue Bonds is determined by dividing the District’s certified gross appraised value by the cumulative total of the certified gross appraised values of all the Cinco Southwest MUDs which are parties to the Master District Contract. The Master District Contract obligates the District to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of ad valorem taxes levied by the District for such purpose (the “Contract Tax”), revenues derived from the operation of the District’s water distribution and wastewater collection system or from any other legally available funds of the District. The Master District is authorized to issue Contract Revenue Bonds in the principal amount of \$455,000,000 for water, sewer, and drainage facilities and in the principal amount of \$107,000,000 for roads. See “TAX DATA—Contract Tax” and “INVESTMENT CONSIDERATIONS—Contract Tax.”

In the event that the Master District fails to meet its obligations under the Master District Contract to provide Master District Facilities, each of the other Cinco Southwest MUDs has the right pursuant to the Master District Contract to design, acquire, construct, or expand the Master District Facilities needed to provide service to such district, and convey such Master District Facilities to the Master District in consideration of payment by the Master District of the actual reasonable and necessary capital costs expended by such district for such Master District Facilities.

The District is further obligated to pay monthly charges for water and sewer services rendered pursuant to the Master District Contract. The monthly charges will be used to pay the District’s share of operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. The District’s share of operation and maintenance expenses and reserve requirements is based upon a “unit cost” of operation and maintenance expense and reserve requirements, calculated and expressed in terms of “cost per equivalent single-family residential connection.” The District’s monthly payment for operation and maintenance expenses is calculated by multiplying the number of equivalent single-family residential connections reserved to the District on the first day of the previous month by the unit cost per equivalent single-family residential connection.

Pursuant to the Master District Contract, the District is obligated to establish and maintain rates, fees and charges for services provided by the District’s water distribution system and wastewater collection system, together with taxes levied and funds received from any other lawful sources, sufficient at all times to pay the District’s operation and maintenance expenses, and the District’s obligations pursuant to the Master District Contract, including the District’s pro rata share of the Master District’s debt service requirements and monthly charges. All sums payable by the District pursuant to the Master District Contract are to be paid by the District without set off, counterclaim, abatement, suspension or diminution. If the District fails to pay its share of these costs in a timely manner, the Master District Contract provides that the Master District shall be entitled to cancel, in whole or in part, any reservation or allocation of capacity in the Master District Facilities by the District in addition to the Master District’s other remedies. As a practical matter, the District has no alternative provider of these services rendered under the Master District Contract.

Each Cinco Southwest MUD, including the District, is obligated severally, but not jointly, to make payments to the Master District (the “Contract Payments”) in an amount sufficient to pay its pro rata share of the debt service requirements on Contract Revenue Bonds issued by the Master District. No Cinco Southwest MUD is obligated, contingently or otherwise, to make any Contract Payments owed by any other Cinco Southwest MUD; however, lack of payment by any district could result in an increase in the Contract Payment amount paid by each of the other Cinco Southwest MUDs, including the District.

Master District Facilities

Water Supply: The water supply facilities of the Master District currently consist of five water wells, for a total combined capacity of 7,350 gallons per minute (“gpm”) each; 2,800,000 gallons of ground storage capacity; pressure tank capacity of 80,000 gallons; booster pump capacity of 15,500 gpm; and all related appurtenances. In addition, the Master District has entered into an interconnect agreement with Fort Bend County Municipal Utility District No. 142. The interconnect is located at the intersection of Fry Road and Holton Gripp Drive. The Master District has also entered into an interconnect agreement with Fort Bend County Municipal Utility District Nos. 34 and 35. The interconnect is proposed to be on Katy-Gaston Road near the intersection with Fry Road. The major components of the Master District’s water supply system will serve approximately 6,688 equivalent single-family connections. According to the Operations Report dated June 2019, the Master District has a current reserved capacity of 7,942 connections (including 1,817 irrigation reservations) and the Cinco Southwest MUDs currently have 5,534 active connections (including 2 connections allocated to schools, which are located outside the boundaries of the Service Area).

In addition, the Master District plans to construct a regional reclaimed water system as part of the Master District Facilities. The current plan for the regional reclaimed water system is to construct the major distribution facilities, make-up irrigation well, ground storage tanks, booster pumps and hydro-pneumatic tanks to serve 298 acres of street right-of-way, adjacent greenbelts and community parks.

In order to fully provide water supply to the Service Area, the Master District Facilities will need to be expanded from time to time to meet the demand for such facilities.

Wastewater Treatment: The wastewater treatment facilities of the Master District consist of one plant with a total capacity of 1,900,000 gallons per day (“gpd”). Current wastewater treatment capacity at the Master District’s plant will serve 7,600 equivalent single-family connections. According to the Operations Report dated June 2019, the Master District has reserved capacity for 6,125 connections (excluding 1,817 irrigation connections) and the Master District was serving approximately 5,534 active connections (including 2 connections allocated to schools, which are located outside the boundaries of the Service Area).

Major Water Distribution and Wastewater Collection: Major water distribution facilities consist of waterlines ranging in size from 12-inch to 30-inch, generally located within the rights-of-way. These water distribution facilities supply water from the Master Water Supply Facilities to the Participants’ facilities.

The wastewater collection facilities include sanitary sewer lines ranging in size from 10-inch to 48-inch, generally located within the rights-of-way of collector roads and the below listed major thoroughfares. These collection lines collect waste from the Participants and transport it to the Master Treatment Facilities.

The Master District currently has two lift stations outside of the Cinco Southwest Wastewater Treatment Plant. Both lift stations are located within the Service Area and are currently operable and serving Service Area residents.

Master Drainage: The Master District also provides the Service Area with drainage facilities designed for a 100-year storm event. These facilities include drainage channels, detention ponds, water quality ponds, conveyance storm sewer, and reinforced outfalls. The existing facilities include the following: Central Lake (detention pond), Ditch East, Ditch South, Ditch South East, Ditch North, Ditch North East, Ditch West, Water Quality/Detention Pond 1, Water Quality/Detention Pond 4, and Ericson Detention Pond.

Internal Water Distribution, Wastewater Collection and Storm Drainage Facilities

Each Cinco Southwest MUD, including the District, owns and operates the internal water distribution, wastewater collection and storm drainage lines within its respective boundaries. The internal facilities are financed with unlimited tax bonds sold by each district. Internal water distribution, wastewater collection and storm drainage facilities have been constructed to serve the entire District.

Flood Protection and Drainage

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

The District is located within the Barker Reservoir Watershed. No portion of the District is located within the 100-year flood plain. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey.”

Subsidence and Conversion to Surface Water Supply

The majority of the Service Area is within the boundaries of the Fort Bend Subsidence District (the “Subsidence District”), which regulates groundwater withdrawal. The Master District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District. 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 areas served by the Master District. In 2005, the Texas legislature created the North Fort Bend Water Authority (the “Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Fort Bend County (including the Service Area) and a small portion of Harris County. 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 Master District and each Participant are included within 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 imposed on the Master District for groundwater pumped by the Master District), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the Master District, to convert from groundwater to surface water. The Authority currently charges the Master District, and other major groundwater users a fee per 1,000 gallons based on the amount of groundwater pumped, and a fee per 1,000 gallons based on the amount, if any, of surface water received 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 2025 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 to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority’s GRP, beginning in the year 2014; and (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority’s GRP, beginning in the year 2025. If the Authority fails to comply with the above Subsidence District regulations, the Authority is subject to a substantial disincentive fee penalty, currently \$6.50 per 1,000 gallons (“Disincentive Fees”), imposed by the Subsidence District for any groundwater withdrawn in excess of 40% 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 Master District. If the Master District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the Master 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. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the Master 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.

Regulation

Construction and operation of the District’s facilities and the Master District Facilities as they now exist or as they may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District and the Master District. Discharge of treated sewage into Texas waters, if any, is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Fort Bend County Drainage District. Fort Bend County and the City of Houston also exercise regulatory jurisdiction over the District and the Master District Facilities.

According to the Engineer, the District’s improvements have been designed and the corresponding plans prepared in accordance with accepted engineering practices and specifications and the approval and permitting requirements of the TCEQ, the Texas Department of Health, Fort Bend County and the City of Houston, where applicable. Construction of the District’s facilities is subject to inspection by the TCEQ, the City of Houston and Fort Bend County. Each of the aforementioned agencies exercises continuing jurisdiction over the District’s and Master District’s facilities.

Water and Wastewater Operations

The Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Nevertheless, net revenues from operations of the District’s water and wastewater system, if any, are available for any legal purpose, including the payment of debt service on the Bonds, upon Board action. However, it is not anticipated that net revenues will be used or would be sufficient to pay debt service on the Bonds.

The following statement sets forth, in condensed form, the General Operating Fund for the District as shown in the District’s audited financial statements for the fiscal years ended May 31, 2015 through May 31, 2019. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to “APPENDIX A” for further and complete information.

	Fiscal Year Ended May 31				
	2019	2018	2017	2016	2015
Revenues:					
Property Taxes	\$ 1,322,336	\$ 1,232,855	\$ 1,276,739	\$ 1,073,704	\$ 1,120,852
Water and Sewer Service	1,166,643	1,204,404	1,215,946	1,196,435	1,128,485
Tap Connection and Sewer Inspection	11,472	43,535	34,275	149,800	117,895
Penalty and Interest	15,831	18,174	25,625	27,227	32,425
Regional Water Authority	1,169,568	1,098,889	999,190	903,445	790,733
Interest Income	109,795	60,683	20,459	7,627	2,915
Miscellaneous	37,692	36,122	1,952	580	500
Total Revenues	<u>\$ 3,833,337</u>	<u>\$ 3,694,662</u>	<u>\$ 3,574,186</u>	<u>\$ 3,358,818</u>	<u>\$ 3,193,805</u>
Expenditures:					
Professional Fees	\$ 106,392	\$ 131,314	\$ 94,477	\$ 81,285	\$ 82,365
Purchased or Contracted Services	1,136,586	1,147,593	1,113,432	1,075,261	1,860,986
Regional Water Authority	1,190,422	1,115,916	1,011,040	915,257	-
Solid Waste	362,018	353,696	346,776	354,974	354,261
Tap Connections	12,460	13,470	12,210	78,355	56,180
Repairs and Maintenance	87,599	93,837	151,552	125,440	107,149
Capital Outlay	1,043,641 (a)	33,779	67,516	-	-
Miscellaneous	40,455	44,745	56,998	54,311	53,133
Total Expenditures	<u>\$ 3,979,573</u>	<u>\$ 2,934,350</u>	<u>\$ 2,854,001</u>	<u>\$ 2,684,883</u>	<u>\$ 2,514,074</u>
NET REVENUES	\$ (146,236)	\$ 760,312	\$ 720,185	\$ 673,935	\$ 679,731
Other Financing Uses	\$ -	\$ (490,000)	\$ -	\$ -	\$ -
General Operating Fund Balance (Beginning of Year)	\$ 5,295,499	\$ 5,025,187	\$ 4,305,002	\$ 3,631,067	\$ 2,951,336
General Operating Fund Balance (End of Year)	\$ 5,149,263	\$ 5,295,499	\$ 5,025,187	\$ 4,305,002	\$ 3,631,067

(a) Represents developer reimbursement related to utilities to serve Crossing at Cinco Ranch West.

THE ROADS

A collector road system serves the residents of the District by providing access to the major thoroughfares within Cinco Southwest and the surrounding area. The Roads financed with previously issued Road Bonds are comprised of Cinco Terrace Drive, and Cinco Rose Drive. They function as collectors by conveying the residents of the District to the major thoroughfares of Spring Green Boulevard, Fry Road, and Cinco Ranch Boulevard. Fort Bend County is responsible for ongoing maintenance of public roads in the District.

THE RECREATIONAL FACILITIES

The Master District Parks serve the residents by providing trails and greenbelts throughout the Service Area. Trails are constructed in the green space adjacent to the major drainage ditches and are connected to each adjacent neighborhood. Other features include but are not limited to neighborhood parks and playgrounds, amenity lakes, pedestrian bridges and underpasses, landscaping and irrigation, benches, picnic tables, barbecue grills, trash receptacles, and trail signs and maps.

Pursuant to the Master District Contract, the Master District owns or will own, construct and/or acquire certain parks and recreational facilities for the benefit of all the Cinco Southwest MUDs (the "Master District Park Facilities"). The Master District has financed the capital costs of the Master District Park Facilities from payments made by each Participant of its pro rata share of the Master District's then estimated capital costs of the Master District Park Facilities (the "Park Construction Charge"). The Park Construction Charge will be computed from time to time on the basis of the then estimated total capital costs of providing the Master District Park Facilities for the Service Area minus the payments which have been previously received from the Cinco Southwest MUDs as Park Construction Charges, and dividing the result by the number of projected total connections to be constructed within the Service Area. In no event shall the total Park Construction Charges paid by any Cinco Southwest MUD under the Master District Contract exceed one percent (1%) of that Cinco Southwest MUD's certified appraised value.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation	\$787,003,168	(a)
Gross Direct Debt Outstanding	\$23,450,000	(b)
Estimated Overlapping Debt	<u>86,583,286</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$110,033,286	
Ratio of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation.....	2.98%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	13.98%	
Debt Service Funds Available:		
Water, Sewer, Drainage and Parks Debt Service Fund Balance as of October 3, 2019	\$500,247	(d)
Road Debt Service Fund Balance as of October 3, 2019.....	<u>791,244</u>	(d)
Total Debt Service Funds Available.....	\$1,291,491	(d)
Operating Funds Available as of October 3, 2019.....	\$5,174,439	
Contract Tax Fund as of October 3, 2019	\$193,924	

- (a) As certified by the Fort Bend Central Appraisal District (the "Appraisal District").
- (b) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt— Overlapping Taxes."
- (d) Although all of the District's debt, including the Remaining Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue will be allocated to the Bonds and the Remaining Outstanding Water, Sewer, Drainage and Park Bonds and a portion will be allocated to the Remaining Outstanding Road Bonds (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds"). The Water, Sewer, Drainage and Park Debt Service Fund is not pledged to the Remaining Outstanding Road Bonds nor are funds on deposit in the Road Debt Service Fund pledged to the Bonds or the Remaining Outstanding Water, Sewer, Drainage and Park Bonds.

Investments of the District

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

Outstanding Bonds

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

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2009 (a)	\$ 11,165,000	\$ 545,000	\$ 185,000	360,000
2009 (b)	5,575,000	185,000	-	185,000
2011 (c)	4,225,000	555,000	-	555,000
2012 (d)	6,180,000	5,025,000	4,115,000	910,000
2012A (a)	1,685,000	1,235,000	910,000	325,000
2012B (c)	1,045,000	760,000	-	760,000
2015 (d)	9,425,000	8,740,000	-	8,740,000
2016 (b) (d)	4,135,000	4,040,000	-	4,040,000
2019 (c) (d)	2,305,000	2,305,000	-	2,305,000
Total	\$ 45,740,000	\$ 23,390,000	\$ 5,210,000	\$ 18,180,000
The Bonds				5,270,000
The Bonds and Remaining Outstanding Bonds				\$ 23,450,000

- (a) Unlimited Tax Bonds for Water, Sewer and Drainage.
- (b) Unlimited Tax Road Bonds.
- (c) Unlimited Tax Park Bonds
- (d) Unlimited Tax Refunding Bonds.

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$5,210,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding	Less: Debt	Plus: Debt Service on the Bonds			Total
	Bonds		Service on the	Principal	Interest	
	Debt Service	Refunded Bonds				Debt Service
	Requirements					Requirements
2020	\$ 2,124,482.50	\$ 178,955	\$ 45,000	\$ 117,000.00	\$ 162,000.00	\$ 2,107,527.50
2021	2,115,277.50	363,955	205,000	139,050.00	344,050.00	2,095,372.50
2022	2,097,377.50	167,300	15,000	132,900.00	147,900.00	2,077,977.50
2023	2,094,612.50	492,300	340,000	132,450.00	472,450.00	2,074,762.50
2024	2,091,250.00	492,550	350,000	122,250.00	472,250.00	2,070,950.00
2025	2,082,750.00	557,500	425,000	111,750.00	536,750.00	2,062,000.00
2026	2,068,150.00	555,200	435,000	99,000.00	534,000.00	2,046,950.00
2027	2,049,100.00	552,600	440,000	90,300.00	530,300.00	2,026,800.00
2028	2,025,650.00	544,700	445,000	81,500.00	526,500.00	2,007,450.00
2029	2,010,475.00	541,650	450,000	72,600.00	522,600.00	1,991,425.00
2030	1,992,562.50	537,663	455,000	63,600.00	518,600.00	1,973,500.00
2031	1,976,675.00	537,875	470,000	49,950.00	519,950.00	1,958,750.00
2032	1,956,012.50	529,563	475,000	35,850.00	510,850.00	1,937,300.00
2033	1,938,500.00	525,850	485,000	21,600.00	506,600.00	1,919,250.00
2034	1,473,725.00	76,375	50,000	7,050.00	57,050.00	1,454,400.00
2035	119,700.00	74,100	50,000	5,550.00	55,550.00	101,150.00
2036	116,025.00	71,825	45,000	4,050.00	49,050.00	93,250.00
2037	112,350.00	69,550	45,000	2,700.00	47,700.00	90,500.00
2038	108,675.00	67,275	45,000	1,350.00	46,350.00	87,750.00
Total	\$ 30,553,350.00	\$ 6,936,785	\$ 5,270,000	\$1,290,500.00	\$ 6,560,500.00	\$ 30,177,065.00

Maximum Annual Debt Service Requirement (2020) \$2,107,528
Average Annual Debt Service Requirements (2020-2038)..... \$1,588,267

Estimated Overlapping Debt

The following table indicates the outstanding debt payable from ad valorem taxes of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service, and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding		Overlapping	
	Bonds	As of	Percent	Amount
Fort Bend County.....	\$ 593,614,527	9/30/2019	1.10%	\$ 6,553,504
Katy Independent School District.....	1,843,845,000	9/30/2019	1.94%	35,696,839
Master District.....	127,945,000	9/30/2019	34.65%	44,332,943
Total Estimated Overlapping Debt.....				\$ 86,583,286
The District's Total Direct Debt (a).....				23,450,000
Total Direct and Estimated Overlapping Debt.....				\$ 110,033,286

Direct Debt and Estimated Overlapping Debt as a Percentage of:

2019 Certified Taxable Assessed Valuation of \$787,003,168..... 13.98%

(a) After the issuance of the Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

Overlapping Taxes

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

Set forth below are all of the taxes levied for the 2019 tax year by all entities overlapping the District and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Fort Bend County (including Drainage District).....	0.458200
Fort Bend Emergency Services District (a).....	0.100000
Katy Independent School District.....	1.443200
Total Overlapping Tax Rate.....	\$ 2.001400
The District (b).....	0.930000
Total Tax Rate.....	\$ 2.931400

(a) Represents the highest 2018 tax rate for the emergency services districts that service the area.

(b) The District has levied a 2019 tax rate of \$0.93 which includes a \$0.47 Contract Tax. See “TAX DATA—Contract Tax.”

TAX DATA

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds and the Remaining Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Remaining Outstanding Bonds. See “Historical Tax Rate Distribution” and “Tax Roll Information” below, “TAXING PROCEDURES.”

Contract Tax

The Master District Facilities have been constructed and financed with proceeds from contract revenue bonds sold by the Master District. The Master District is authorized to issue Contract Revenue Bonds sufficient to complete acquisition, construction, modification, expansion and rehabilitation of the Master District Facilities. The District’s pro rata share (and that of all other Cinco Southwest MUDs) of the debt service requirements on the Contract Revenue Bonds is determined by dividing the District’s certified gross assessed value by the cumulative total of the certified gross assessed values of all the Cinco Southwest MUDs. The District’s 2019 Certified Gross Assessed Valuation was \$795,553,159 at the time the Master District established its 2019 Contract Tax Payment and the 2019 Certified Gross Assessed Valuation of all of the land within the Cinco Southwest MUDs was \$2,293,597,140, which produces a pro rata share for the District of 34.69%, which equates to a 2020 Contract Tax Payment of \$3,824,315. The Master District Contract obligates the District to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of the Contract Tax, revenues derived from the operation of the District’s water distribution and wastewater collection system or from any other legally available funds of the District. The District levied a 2019 Contract Tax of \$0.47 to pay its pro rata share of the debt service on the Contract Revenue Bonds. See “INVESTMENT CONSIDERATIONS—Overlapping Debt.”

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District’s water, sewer and drainage system and roads, if such a maintenance tax is authorized by the District’s voters. Maintenance tax elections were conducted November 8, 2005 and November 6, 2007 and voters of the District among other things, authorized, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 appraised valuation for utility maintenance and \$0.25 for road maintenance. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

Historical Tax Rate Distribution

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt Service	\$ 0.260	\$ 0.270	\$ 0.280	\$ 0.280	\$ 0.305
Maintenance and Operations	0.200	0.170	0.160	0.165	0.145
Contract Tax	<u>0.470</u>	<u>0.470</u>	<u>0.500</u>	<u>0.540</u>	<u>0.590</u>
Total	<u>\$ 0.930</u>	<u>\$ 0.910</u>	<u>\$ 0.940</u>	<u>\$ 0.985</u>	<u>\$ 1.040</u>

Additional Penalties

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

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District’s Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. Information in this summary may differ slightly from the assessed valuations shown herein due to difference in dates of data. See “Tax Roll Information” below.

Tax Year	Net Certified	Tax Rate	Total Tax Levy(b)	Total Collections as of September 30, 2019	
	Taxable Assessed Valuation(a)			Amount	Percent
2014	\$ 663,430,253	\$ 1.200	\$ 7,961,163	\$ 7,957,996	99.96%
2015	738,625,016	1.040	7,681,700	7,676,977	99.94%
2016	776,246,773	0.985	7,646,031	7,641,004	99.93%
2017	768,253,512	0.940	7,221,583	7,217,100	99.94%
2018	778,770,176	0.910	7,086,809	7,063,586	99.67%
2019	787,003,168	0.930	7,319,129	(c)	(c)

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.
- (b) Represents the tax levy applied to the Certified Taxable Assessed Valuation.
- (c) In process of collection. The 2019 taxes are due by January 31, 2020.

Tax Roll Information

The District’s assessed value as of January 1 of each year is used by the District in establishing its tax rate (see “TAXING PROCEDURES—Valuation of Property for Taxation”). The following represents the composition of property comprising the 2015 through 2019 Certified Taxable Assessed Valuation. See “TAXING PROCEDURES.” No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. Information in this summary may differ slightly from the assessed valuations shown herein due to difference in dates of data.

	2019 Taxable Assessed Valuation	2018 Taxable Assessed Valuation	2017 Taxable Assessed Valuation	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation
Land	\$ 190,030,505	\$ 186,564,855	\$ 167,906,865	\$ 162,620,845	\$ 159,326,725
Improvements	595,696,287	588,509,356	598,766,713	610,308,753	574,320,570
Personal Property	30,211,845	31,262,790	21,919,400	20,335,100	18,243,960
Exemptions	(28,935,469)	(27,566,825)	(20,339,466)	(17,017,925)	(13,266,239)
Total	\$ 787,003,168	\$ 778,770,176	\$ 768,253,512	\$ 776,246,773	\$ 738,625,016

Principal Taxpayers

The following table represents the principal taxpayers, the taxable appraised value of such property, and such property’s taxable appraised value as a percentage of the 2019 Certified Taxable Assessed Valuation of \$787,003,168. This represents ownership as of January 1, 2019.

<u>Taxpayer</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
Southpark Cinco Ranch LLC	\$ 42,820,385	5.44%
Lowes Home Centers LLC	15,699,180	1.99%
Thor Ranch LLC	9,162,406	1.16%
Kroger Texas LP	4,502,290	0.57%
Academy LTD	3,368,120	0.43%
McAllen Interests LLC	3,282,800	0.42%
Terrace Springs Green LLC	3,266,770	0.42%
Blex Exchange GP VII LLC	2,976,581	0.38%
Trust B Ranch Lilac Trust	2,752,870	0.35%
Texas Petroleum Group LLC	2,718,860	0.35%
Total	\$ 90,550,262	11.51%

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District’s tax base occurred beyond the 2019 Certified Taxable Assessed Valuation of \$787,003,168. The calculations contained in the following table represent the tax rates required to pay principal of and interest on the Bonds and the Remaining Outstanding Bonds, when due, assuming no further increase or any decrease in Taxable Assessed Values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”

Average Annual Debt Service Requirement (2020-2038)	\$1,588,267
\$0.22 Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$1,644,837
Maximum Annual Debt Service Requirement (2020)	\$2,107,528
\$0.29 Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$2,168,194

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Remaining Outstanding Bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year-to-year as described more fully herein under “THE BONDS—Source of Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$3,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran’s residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See “TAX DATA.”

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

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

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Generally, assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

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

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

District and Taxpayer Remedies

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Rollback of Operation and Maintenance Tax Rate

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

Special Taxing Units

Special Taxing Units that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

Developed Districts

Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

Developing Districts

Districts that do not meet the classification of a Special Taxing Unit or a Developed District can be classified as Developing Districts. The qualified voters of these districts, upon the Developing District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax rate imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If an election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

The District

A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors of such district on an annual basis, beginning with the 2020 tax rate. The District cannot give any assurances as to what the classification of the District will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Fort Bend County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—Source of Payment." The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies" below.

Recent Extreme Weather Events; Hurricane Harvey

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

According to the Operator and the Engineer, the Master District's water, wastewater and drainage system did not sustain any material damage and there was no interruption of water and sewer service during the Hurricane Harvey event. Further, the District did not receive any reports that any homes or other improvements within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase 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

River (or Fluvial) Flood: 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 sheetflow overland. 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 floods are very dangerous and destructive not only because of the force of the water, but also the hurtling debris that is often swept up in the flow. They can occur within minutes or a few hours of excessive rainfall. They can also occur even if no rain has fallen, for instance, after a levee or dam has failed, or after a sudden release of water by a debris or ice jam. Controlled releases from a dam or levee also could potentially create a flooding condition in rivers or man-made drainage systems (canals or channels) downstream.

Ponding (or Pluvial) Flood: occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can over capacitate a drainage system which becomes trapped and flows out into streets and nearby structures until it reaches a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam or levee.

Overlapping Debt

The tax rates that may be required to service debt on any contract revenue bonds issued by the Master District are subject to numerous uncertainties such as the amount of contract revenue debt issued by the Master District. There can be no assurances that composite tax rates imposed by all overlapping jurisdictions on property situated in the District will be competitive with the tax rates of competing projects in the Harris/Fort Bend County region. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values in the District and the investment quality or security of the Bonds could be adversely affected.

The Master District has approximately \$127,945,000 principal amount of Contract Revenue Bonds outstanding. The Master District is authorized to issue Contract Revenue Bonds in the principal amount of \$455,000,000 for water, sewer, and drainage facilities without additional voter approval of which \$306,652,655 is authorized but unissued and in the principal amount of \$107,000,000 for roads without additional voter approval of which \$85,525,000 is authorized but unissued. The District is obligated to pay its pro rata share of debt service on the Contract Revenue Bonds from the proceeds of ad valorem taxes levied by the District for such purpose (the “Contract Tax”) or from any other lawful source of District income. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt” and “TAX DATA—Contract Tax.”

Tax Collections Limitations and Foreclosure Remedies

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 local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court’s stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers’ right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor’s confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners’ Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government’s sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901- 946. The filing of such petition would automatically stay the enforcement of Registered Owner’s remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of \$270,000,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities, \$30,000,000 principal amount of unlimited tax bonds for park and recreational facilities, \$20,000,000 principal amount of unlimited tax bonds for roads and \$270,000,000 principal amount of unlimited tax bonds for refunding purposes have been authorized by voters in the District. The District currently has \$250,605,000 principal amount of unlimited tax bonds authorized but unissued for acquiring or constructing a water, wastewater and storm drainage system, \$24,730,000 principal amount of unlimited tax bonds for parks and recreational facilities, \$14,425,000 principal amount of unlimited tax bonds for roads and related improvements which are authorized but unissued and, after the issuance of the Bonds, the District will have \$267,565,000 principal amount of unlimited tax refunding bonds authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

The District may issue additional park bonds in the future. The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue; however, the principal amount of park bonds sold by the District is limited to one percent (1%) of the District's certified taxable assessed valuation. The issuance of additional bonds to finance water, wastewater, drainage and recreational facilities (but not roads) is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. 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-Brazoria 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, the 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, the 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 the 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 the 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, with an attainment deadline of August 3, 2021. 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) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

Certain governmental entities regulate groundwater usage in the HGB Area. A municipal utility district or other type of special purpose district that (i) is located within the boundaries of such an entity that regulates groundwater usage, and (ii) relies on local groundwater as a source of water supply, may be subject to requirements and restrictions on the drilling of water wells and/or the production of groundwater that could affect both the engineering and economic feasibility of district water supply projects.

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and the EPA’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

The District is subject to the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District has applied for coverage under the MS4 Permit and is awaiting final approval from the TCEQ. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required 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. Costs associated with these compliance activities could be substantial in the future..

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

In 2015, the EPA and 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 expanded the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR was challenged in numerous jurisdictions, including the Southern District of Texas, causing significant uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction.

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal will officially become final sixty days after its publication in the Federal Register.

On December 11, 2018, the EPA and USACE released a proposed replacement definition of "waters of the United States." The proposed definition outlines six categories of waters that would be considered "waters of the United States," including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not "waters of the United States," such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies took comments on the proposal for 60 days after publication in the Federal Register, which occurred on February 14, 2019, but the proposed rule has not been finalized.

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

Marketability of the Bonds

The District has no understanding 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 more generally bought, sold or traded in the secondary market.

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has entered into an agreement with Build America Mutual Assurance Company ("BAM" or the "Insurer") for the purchase of a municipal bond insurance policy (the "Policy"). At the time of entering into the agreement, the Insurer was rated "AA" (stable outlook) by S&P. See "MUNICIPAL BOND INSURANCE."

The long-term ratings on the Bonds are dependent in part on the financial strength of the bond insurer (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.

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.

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See "TAX MATTERS."

Changes in Tax Legislation

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

LEGAL MATTERS

Legal Proceedings

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

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under "PLAN OF FINANCING—Payment of Refunded Bonds," "THE BONDS," "THE DISTRICT—General," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District or the Developer for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

The 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.

No Material Adverse Change

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

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not subject to the alternative minimum tax on individuals.

The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The District has covenanted in the Resolution that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District’s Financial Advisor and the Underwriter with respect to matters solely within the knowledge of the District, the District’s Financial Advisor and the Underwriter, respectively, which Bond Counsel has not independently verified. Bond Counsel will further rely on the report of Public Finance Partners LLC regarding the mathematical accuracy of certain computations. If the District should fail to comply with the covenants in the Resolution or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an “exempt recipient” and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of certain of the Bonds (the “Original Issue Discount Bonds”) is less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner 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 period that such Original Issue Discount Bond continues to be owned by such owner.

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 Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on a Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the OFFICIAL STATEMENT.)

The foregoing is based on the assumptions that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this OFFICIAL STATEMENT, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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 Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Bond for purposes of determining the amount of gain or loss recognized by such owner upon 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 plus 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 Bond.

The federal income tax consequences of the purchase, ownership, and 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 interest accrued upon redemption, sale or other disposition of such Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership and redemption, sale or other disposition of such Bonds.

Qualified Tax-Exempt Obligations

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

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

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

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), will assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. Moody's Investors Service ("Moody's") has assigned an underlying credit rating of "A2" to the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007.

There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by S&P or Moody's, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$525 million, \$114 million and \$411 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

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 cash and the maturing principal of and interest on the Escrowed Obligations, to pay, when due, the maturing principal of, interest on and related call premium requirements 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.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this OFFICIAL STATEMENT has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District 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. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a 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. Each consultant has agreed to the use of information provided by such firms.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the District's assessed valuations and certain other historical data concerning tax rates and tax collections has been provided by Mike Arterburn of Utility Tax Service, LLC and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes..

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the District's and Master District's water and wastewater system and certain information included in the sections entitled "THE DISTRICT—Description and Location—Land Use and Status of Development," "WATER, SEWER AND DRAINAGE" and "THE ROADS" has been provided by BGE, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The financial statements of the District as of May 31, 2019, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

Appraisal District: The information contained in this OFFICIAL STATEMENT relating to the historical certified taxable appraised valuations has been provided by the Fort Bend Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Fort Bend County, including the District.

Updating the Official Statement

If subsequent to the date of the OFFICIAL STATEMENT, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the OFFICIAL STATEMENT to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the OFFICIAL STATEMENT satisfactory to the Underwriter, provided, however, that the obligation of the District to the Underwriter to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB through its Electronic Municipal Market Access System ("EMMA"). The information to be updated with respect to the District includes all quantitative financial information and operating data with respect to the District of the general type included in this OFFICIAL STATEMENT under the headings "WATER, SEWER AND DRAINAGE," "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)" (except for "Estimated Overlapping Debt"), "TAX DATA," and in APPENDIX A (Independent Auditor's Report and Financial Statements and Supplemental Schedules). The District will update and provide this information within six (6) months after the end of each of its fiscal years ending in or after 2020. Any financial statements provided by the District shall be prepared in accordance with generally accepted accounting principles 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 is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

The District's current fiscal year end is May 31. Accordingly, it must provide updated information by November 30 in each year, unless it 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 specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "obligated person" and "financial obligation" when used in this paragraph shall have the meanings ascribed to them under SEC Rule 12c2-12 (the "Rule"). The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operational data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through its Electronic Municipal Market Access ("EMMA") internet portal at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance With Prior Undertakings

During the last five years, the District has complied in all material respects with its previous continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

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

This OFFICIAL STATEMENT was approved by the Board of Directors of Cinco Southwest Municipal Utility District No. 2, as of the date shown on the cover page.

/s/ Alan Hirshman
President, Board of Directors

ATTEST:

/s/ Cregg McGaha
Secretary, Board of Directors

APPENDIX A

The information contained in this appendix includes the Independent Auditors Report and Financial Statements of Cinco Southwest Municipal Utility District No. 2 and certain supplemental information for the fiscal year ended May 31, 2019.

Cinco Southwest Municipal Utility District No. 2

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2019



Cinco Southwest Municipal Utility District No. 2
May 31, 2019

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Independent Auditor's Report

Board of Directors
Cinco Southwest Municipal Utility District No. 2
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Cinco Southwest Municipal Utility District No. 2 (the District), as of and for the year ended May 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of May 31, 2019, and the respective changes in financial position thereof 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 budgetary comparison schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
October 1, 2019

Cinco Southwest Municipal Utility District No. 2

Management's Discussion and Analysis

May 31, 2019

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

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

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

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

Cinco Southwest Municipal Utility District No. 2

Management's Discussion and Analysis (Continued)

May 31, 2019

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Cinco Southwest Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
May 31, 2019

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	2019	2018
Current and other assets	\$ 10,918,374	\$ 11,122,030
Capital assets	15,287,659	15,848,035
Total assets	26,206,033	26,970,065
Deferred outflows of resources	2,501,142	2,622,458
Total assets and deferred outflows of resources	\$ 28,707,175	\$ 29,592,523
Long-term liabilities	\$ 25,071,308	\$ 27,325,498
Other liabilities	884,922	792,691
Total liabilities	25,956,230	28,118,189
Net position:		
Net investment in capital assets	(7,282,507)	(8,855,005)
Restricted	4,869,250	5,020,278
Unrestricted	5,164,202	5,309,061
Total net position	\$ 2,750,945	\$ 1,474,334

The total net position of the District increased by \$1,276,611, or about 87 percent. The majority of the increase in net position is related to property taxes, charges for services and other revenues in excess of services, debt service and contractual obligation expenses. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Cinco Southwest Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
May 31, 2019

Summary of Changes in Net Position

	2019	2018
Revenues:		
Property taxes	\$ 7,084,546	\$ 7,217,502
Charges for services	2,336,211	2,303,293
Other revenues	298,334	250,088
Total revenues	<u>9,719,091</u>	<u>9,770,883</u>
Expenses:		
Services	3,043,424	3,004,911
Depreciation	560,376	560,377
Debt service	1,036,372	1,114,903
Contractual obligation	3,802,308	4,039,779
Total expenses	<u>8,442,480</u>	<u>8,719,970</u>
Change in net position	1,276,611	1,050,913
Net position, beginning of year	<u>1,474,334</u>	<u>423,421</u>
Net position, end of year	<u>\$ 2,750,945</u>	<u>\$ 1,474,334</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended May 31, 2019, were \$10,158,347, a decrease of \$312,872 from the prior year.

The general fund's fund balance decreased by \$146,236 due to service operations and capital outlay expenditures in excess of property tax, investment income and service and tap connection fee revenues.

The debt service fund's fund balance decreased by \$166,636 because bond principal and interest requirements, contractual obligation and other expenditures were greater than tax revenues generated.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to property taxes, investment income and other income revenues, and capital outlay expenditures being greater than anticipated. In addition, regional water authority revenue and related expenditure, repairs and maintenance and other expenditures were less than anticipated. The fund balance as of May 31, 2019, was expected to be \$4,958,998 and the actual end-of-year fund balance was \$5,149,263.

Cinco Southwest Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
May 31, 2019

Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

	2019	2018
Land and improvements	\$ 651,500	\$ 651,500
Water facilities	3,083,207	3,174,761
Wastewater facilities	4,376,396	4,505,824
Drainage facilities	5,320,772	5,474,829
Roads	1,855,784	2,041,121
Total capital assets	\$ 15,287,659	\$ 15,848,035

During the current year, there were no additions to capital assets.

Debt

The changes in the debt position of the District during the fiscal year ended May 31, 2019, are summarized as follows:

Long-term debt payable, beginning of year	\$ 27,325,498
Decreases in long-term debt	(2,254,190)
Long-term debt payable, end of year	\$ 25,071,308

At May 31, 2019, the District had \$250,605,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$14,425,000 of unlimited tax bonds authorized, but unissued, for the purpose of purchasing, constructing and maintaining roads; and \$24,730,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving recreational facilities.

The District's bonds have an underlying rating of "A2" from Moody's Investors Service. The Series 2011, Refunding Series 2012, Series 2012A, Series 2012B and Refunding Series 2015 bonds carry a rating of "AA" from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Road Refunding Series 2016 bonds carry a rating of "AA" from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company.

Cinco Southwest Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
May 31, 2019

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City for full purposes without the District's consent, except as set forth below.

Effective December 20, 2007, the District entered into a Strategic Partnership Agreement (the Agreement) with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years, at which time the City has the option to annex the District if it chooses to do so.

Subsequent Event

On June 5, 2019, the District issued \$2,305,000 in Unlimited Tax Park Refunding Bonds, Series 2019, to advance-refund \$2,190,000 of outstanding Series 2011 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$287,393 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$221,514.

Cinco Southwest Municipal Utility District No. 2
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2019

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 196,066	\$ 108,041	\$ 304,107	\$ -	\$ 304,107
Short-term investments	5,282,869	4,926,761	10,209,630	-	10,209,630
Receivables:					
Property taxes	14,939	69,229	84,168	-	84,168
Service accounts	172,728	-	172,728	-	172,728
Accrued penalty and interest	-	-	-	18,826	18,826
Due from City of Houston	99,753	-	99,753	28,000	127,753
Prepaid expenditures	1,162	-	1,162	-	1,162
Interfund receivable	25,718	-	25,718	(25,718)	-
Capital assets (net of accumulated depreciation):					
Land and improvements	-	-	-	651,500	651,500
Infrastructure	-	-	-	12,780,375	12,780,375
Roads	-	-	-	1,855,784	1,855,784
Total assets	<u>5,793,235</u>	<u>5,104,031</u>	<u>10,897,266</u>	<u>15,308,767</u>	<u>26,206,033</u>
Deferred Outflows of Resources					
Deferred amount on debt refundings	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,501,142</u>	<u>2,501,142</u>
Total assets and deferred outflows of resources	<u>\$ 5,793,235</u>	<u>\$ 5,104,031</u>	<u>\$ 10,897,266</u>	<u>\$ 17,809,909</u>	<u>\$ 28,707,175</u>

Cinco Southwest Municipal Utility District No. 2
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
May 31, 2019

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Liabilities					
Accounts payable	\$ 249,965	\$ -	\$ 249,965	\$ -	\$ 249,965
Accrued interest payable	-	-	-	227,889	227,889
Customer deposits	189,315	-	189,315	-	189,315
Due to others	189,753	-	189,753	28,000	217,753
Interfund payables	-	25,718	25,718	(25,718)	-
Long-term liabilities:					
Due within one year	-	-	-	1,235,000	1,235,000
Due after one year	-	-	-	23,836,308	23,836,308
Total liabilities	<u>629,033</u>	<u>25,718</u>	<u>654,751</u>	<u>25,301,479</u>	<u>25,956,230</u>
Deferred Inflows of Resources					
Deferred property tax revenues	<u>14,939</u>	<u>69,229</u>	<u>84,168</u>	<u>(84,168)</u>	<u>0</u>
Fund Balances/Net Position					
Fund balances:					
Nonspendable, prepaid expenditures	1,162	-	1,162	(1,162)	-
Restricted:					
Utility bonds	-	3,954,715	3,954,715	(3,954,715)	-
Road bonds	-	1,054,369	1,054,369	(1,054,369)	-
Unassigned	<u>5,148,101</u>	<u>-</u>	<u>5,148,101</u>	<u>(5,148,101)</u>	<u>-</u>
Total fund balances	<u>5,149,263</u>	<u>5,009,084</u>	<u>10,158,347</u>	<u>(10,158,347)</u>	<u>0</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,793,235</u>	<u>\$ 5,104,031</u>	<u>\$ 10,897,266</u>		
Net position:					
Net investment in capital assets				(7,282,507)	(7,282,507)
Restricted for debt service				4,869,250	4,869,250
Unrestricted				<u>5,164,202</u>	<u>5,164,202</u>
Total net position				<u>\$ 2,750,945</u>	<u>\$ 2,750,945</u>

Cinco Southwest Municipal Utility District No. 2
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended May 31, 2019

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues					
Property taxes	\$ 1,322,336	\$ 5,760,352	\$ 7,082,688	\$ 1,858	\$ 7,084,546
Water service	943,530	-	943,530	-	943,530
Sewer service	223,113	-	223,113	-	223,113
Regional water authority	1,169,568	-	1,169,568	-	1,169,568
Penalty and interest	15,831	47,042	62,873	2,380	65,253
Tap connection and inspection fees	11,472	-	11,472	-	11,472
Investment income	109,795	74,122	183,917	-	183,917
Other income	37,692	-	37,692	-	37,692
Total revenues	3,833,337	5,881,516	9,714,853	4,238	9,719,091
Expenditures/Expenses					
Service operations:					
Purchased services	993,564	-	993,564	-	993,564
Regional water authority	1,190,422	-	1,190,422	-	1,190,422
Professional fees	106,392	-	106,392	-	106,392
Contracted services	143,022	28,188	171,210	-	171,210
Solid waste	362,018	-	362,018	-	362,018
Repairs and maintenance	87,599	-	87,599	-	87,599
Other expenditures	40,455	79,304	119,759	-	119,759
Tap connections	12,460	-	12,460	-	12,460
Capital outlay	1,043,641	-	1,043,641	(1,043,641)	-
Depreciation	-	-	-	560,376	560,376
Debt service:					
Principal retirement	-	1,195,000	1,195,000	(1,195,000)	-
Interest and fees	-	943,352	943,352	93,020	1,036,372
Contractual obligation	-	3,802,308	3,802,308	-	3,802,308
Total expenditures/expenses	3,979,573	6,048,152	10,027,725	(1,585,245)	8,442,480
Deficiency of Revenues Over Expenditures	(146,236)	(166,636)	(312,872)	312,872	
Change in Net Position				1,276,611	1,276,611
Fund Balances/Net Position					
Beginning of year	5,295,499	5,175,720	10,471,219	-	1,474,334
End of year	<u>\$ 5,149,263</u>	<u>\$ 5,009,084</u>	<u>\$ 10,158,347</u>	<u>\$ 0</u>	<u>\$ 2,750,945</u>

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Cinco Southwest Municipal Utility District No. 2 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective May 11, 2005. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. The District also provides solid waste disposal service.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2019

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2019

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2019

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis.

Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2019

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended May 31, 2019, include collections during the current period or within 60 days of year-end related to the 2018 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended May 31, 2019, the 2018 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45
Roads	10-45

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2019

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

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

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 15,287,659
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	84,168
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	18,826
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	2,501,142
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(227,889)

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2019

Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	\$ (25,071,308)
Adjustment to fund balances to arrive at net position.	\$ (7,407,402)

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	\$ (312,872)
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current year.	483,265
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	1,195,000
Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities.	4,238
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in government funds.	(93,020)
Change in net position of governmental activities.	\$ 1,276,611

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2019

At May 31, 2019, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At May 31, 2019, the District had the investments and maturities shown as follows:

Type	Maturities in Years				
	Amortized Costs	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 10,209,630	\$ 10,209,630	\$ 0	\$ 0	\$ 0

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2019, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2019

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheet and statement of net position at May 31, 2019, as follows:

Carrying value:		
Deposits	\$	304,107
Investments		<u>10,209,630</u>
Total	\$	<u><u>10,513,737</u></u>

Investment Income

Investment income of \$183,917 for the year ended May 31, 2019, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended May 31, 2019, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 651,500	\$ 0	\$ 651,500
Capital assets, depreciable:			
Water production and distribution facilities	4,024,103	-	4,024,103
Wastewater collection and treatment facilities	5,807,415	-	5,807,415
Drainage facilities	6,910,830	-	6,910,830
Roads	<u>3,706,724</u>	-	<u>3,706,724</u>
Total capital assets, depreciable	<u>20,449,072</u>	<u>0</u>	<u>20,449,072</u>
Less accumulated depreciation:			
Water production and distribution facilities	(849,342)	(91,554)	(940,896)
Wastewater collection and treatment facilities	(1,301,591)	(129,428)	(1,431,019)
Drainage facilities	(1,436,001)	(154,057)	(1,590,058)
Roads	<u>(1,665,603)</u>	<u>(185,337)</u>	<u>(1,850,940)</u>
Total accumulated depreciation	<u>(5,252,537)</u>	<u>(560,376)</u>	<u>(5,812,913)</u>
Total governmental activities, net	<u>\$ 15,848,035</u>	<u>\$ (560,376)</u>	<u>\$ 15,287,659</u>

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2019

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended May 31, 2019, were as follows:

Governmental Activities	Balances, Beginning of Year	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:				
General obligation bonds	\$ 25,705,000	\$ 1,195,000	\$ 24,510,000	\$ 1,235,000
Less discounts on bonds	211,474	20,766	190,708	-
Add premiums on bonds	788,331	36,315	752,016	-
	26,281,857	1,210,549	25,071,308	1,235,000
Due to developer	1,043,641	1,043,641	-	-
Total governmental activities long-term liabilities	<u>\$ 27,325,498</u>	<u>\$ 2,254,190</u>	<u>\$ 25,071,308</u>	<u>\$ 1,235,000</u>

General Obligation Bonds

	Series 2009	Road Series 2009
Amounts outstanding, May, 31, 2019	\$885,000	\$355,000
Interest rates	6.00% to 6.30%	4.70% to 5.50%
Maturity dates, serially beginning/ending	September 1, 2019/2021	September 1, 2019/2020
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2018	September 1, 2018
	Series 2011	Refunding Series 2012
Amounts outstanding, May, 31, 2019	\$2,930,000	\$5,310,000
Interest rates	3.50% to 5.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2034	September 1, 2019/2033
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2019	September 1, 2019

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2019

	Series 2012A	Series 2012B
Amounts outstanding, May, 31, 2019	\$1,300,000	\$800,000
Interest rates	3.00% to 5.50%	3.00% to 5.50%
Maturity dates, serially beginning/ending	September 1, 2019/2038	September 1, 2019/2038
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2019	September 1, 2019
	Refunding Series 2015	Road Refunding Series 2016
Amounts outstanding, May, 31, 2019	\$8,870,000	\$4,060,000
Interest rates	2.00% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2034	September 1, 2019/2034
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2022	September 1, 2022

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at May 31, 2019.

Year	Principal	Interest	Total
2020	\$ 1,235,000	\$ 884,251	\$ 2,119,251
2021	1,285,000	830,141	2,115,141
2022	1,330,000	779,688	2,109,688
2023	1,360,000	737,456	2,097,456
2024	1,395,000	698,927	2,093,927
2025-2029	7,510,000	2,771,398	10,281,398
2030-2034	8,555,000	1,245,862	9,800,862
2035-2039	1,840,000	73,135	1,913,135
Total	<u>\$ 24,510,000</u>	<u>\$ 8,020,858</u>	<u>\$ 32,530,858</u>

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2019

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Bonds voted:

Water, sewer and drainage	\$ 270,000,000
Roads	20,000,000
Parks and recreation	30,000,000
Refunding	270,000,000

Bonds sold:

Water, sewer and drainage	19,395,000
Roads	5,575,000
Parks and recreation	5,270,000
Refunding	19,740,000

Note 5: Significant Bond Resolution and Commission Requirements

- A. The Bond Resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended May 31, 2019, the District levied an ad valorem debt service tax at the rate of \$0.2280 per \$100 of assessed valuation, which resulted in a tax levy of \$1,777,308 on the taxable valuation of \$779,520,976 for the 2018 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$1,789,488 of which \$372,244 has been paid and \$1,417,244 is due September 1, 2019.
- B. The Bond Resolutions require that the District levy and collect an ad valorem road debt service tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation in order to pay principal and interest on road bonds when due. During the year ended May 31, 2019, the District levied an ad valorem road debt service tax at the rate of \$0.0420 per \$100 of assessed valuation, which resulted in a tax levy of \$327,398 on the taxable valuation of \$779,520,976 for 2018 tax year. The interest and principal requirements to be paid from the road debt service tax revenues and available resources are \$357,070 of which \$83,535 has been paid and \$273,535 is due September 1, 2019.

Note 6: Maintenance Taxes

At an election held November 8, 2005, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.1700 per \$100 of assessed valuation, which resulted in a tax levy of \$1,325,186 on the taxable valuation of \$779,520,976 for the 2018 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2019

At an election held November 6, 2007, voters authorized a road maintenance tax not to exceed \$0.25 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2019, the District did not levy an ad valorem road maintenance tax for the 2018 tax year. The road maintenance tax will be used by the general fund to pay expenditures for maintenance of certain roads within the District.

Note 7: Contract Taxes

At an election held November 8, 2005, voters authorized a contract tax on all property within the District subject to taxation in order to pay principal and interest on road bonds when due. During the year ended May 31, 2019, the District levied an ad valorem contract tax at the rate of \$0.4700 per \$100 of assessed valuation, which resulted in a tax levy of \$3,663,749 on the taxable valuation of \$779,520,976 for 2018 tax year. This contract tax is used to pay for its pro rata share of principal and interest on the District's contract revenue bonds as described in Note 9.

Note 8: Regional Water Authority

The District is within the boundaries of the North Fort Bend Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Fort Bend Subsidence District, which regulates groundwater withdrawal. As of May 31, 2019, the Authority was billing District No. 1 \$3.65 per 1,000 gallons of water pumped from its wells and \$4.00 per 1,000 gallons of surface water received. These amounts are subject to future increases.

Note 9: Financing and Operating of Regional Facilities

On November 16, 2007, the District entered into a regional contract with District No. 1. District No. 1 agreed to provide, or cause to be provided, the regional water supply and delivery facilities and the regional waste collection, treatment and disposal facilities and certain roads necessary to serve the District. Under the terms of the regional contract, which is in effect for 40 years, District No. 1 charges the District a monthly operational fee calculated by multiplying the unit cost per connection by the number of equivalent single-family residential connections reserved to each participant. For the year ended May 31, 2019, the District incurred fees totaling \$993,564 for purchased services.

In addition, District No. 1 is authorized to issue contract revenue bonds sufficient to complete acquisition and construction of the facilities as needed to serve all districts in the service area. Each participating district contributes to the payment of debt service requirements of the bonds, based on

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2019

the certified assessed valuation of each participant as a percentage of the total assessed valuation of all participating districts. During the current year, the District paid \$3,802,308 for its pro rata share (approximately 35 percent) of the principal and interest of District No. 1's bonds with such sums derived from contract taxes as described in Note 7.

The debt service requirements on District No. 1's bonds outstanding, as disclosed in its annual financial report as of May 31, 2019, are as follows:

Year	Principal	Interest	Total
2020	\$ 6,695,000	\$ 4,745,925	\$ 11,440,925
2021	6,700,000	4,552,004	11,252,004
2022	6,780,000	4,317,446	11,097,446
2023	6,825,000	4,094,956	10,919,956
2024	6,875,000	3,861,516	10,736,516
2025-2029	35,410,000	15,541,488	50,951,488
2030-2034	37,060,000	8,808,342	45,868,342
2035-2039	<u>21,520,000</u>	<u>2,300,253</u>	<u>23,820,253</u>
Total	<u>\$ 127,865,000</u>	<u>\$ 48,221,930</u>	<u>\$ 176,086,930</u>

Note 10: Strategic Partnership Agreement

The District has entered into a Strategic Partnership Agreement (the Agreement) with the City of Houston (the City). Pursuant to the terms of the Agreement, certain commercial tracts (currently undeveloped) within the District have been annexed into the City for limited purposes and the City has imposed a 1 percent sales and use tax (but no property tax) within the areas of limited-purpose annexation and agreed to remit one-half of such sales and use tax to the District to be used for any lawful District purpose. The District, along with the other districts in the Cinco Ranch Development, has agreed to utilize the Agreement revenue to pay joint operating and maintenance costs. District No. 1, by agreement with districts in its service area, will manage the expenditure of the Agreement revenues. Such revenues are not available to pay the principal of or interest on the bonds.

The Agreement further provides that the City may not annex the District for "full purposes" until 30 years from the effective date of the Agreement, as amended in 2010 (December 5, 2007). Prior to the full purpose annexation of the District, property within the District is not subject to the City's ad valorem property tax and District residents are not allowed to vote in City elections for bond issues or charter amendments.

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2019

Note 11: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 12: Subsequent Event

On June 5, 2019, the District issued \$2,305,000 in Unlimited Tax Park Refunding Bonds, Series 2019, to advance-refund \$2,190,000 of outstanding Series 2011 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$287,393 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$221,514.

Required Supplementary Information

Cinco Southwest Municipal Utility District No. 2
Budgetary Comparison Schedule – General Fund
Year Ended May 31, 2019

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 1,200,000	\$ 1,200,000	\$ 1,322,336	\$ 122,336
Water service	960,000	960,000	943,530	(16,470)
Regional water authority	1,217,986	1,217,986	1,169,568	(48,418)
Sewer service	260,000	260,000	223,113	(36,887)
Penalty and interest	15,000	15,000	15,831	831
Tap connection and inspection fees	15,000	15,000	11,472	(3,528)
Investment income	55,000	55,000	109,795	54,795
Other income	5,000	5,000	37,692	32,692
Total revenues	<u>3,727,986</u>	<u>3,727,986</u>	<u>3,833,337</u>	<u>105,351</u>
Expenditures				
Service operations:				
Purchased services	1,003,860	1,003,860	993,564	10,296
Regional water authority	1,217,986	1,217,986	1,190,422	27,564
Professional fees	114,500	114,500	106,392	8,108
Contracted services	158,500	158,500	143,022	15,478
Solid waste	355,000	355,000	362,018	(7,018)
Repairs and maintenance	164,000	164,000	87,599	76,401
Other expenditures	81,000	81,000	40,455	40,545
Tap connections	16,000	16,000	12,460	3,540
Capital outlay	450,000	953,641	1,043,641	(90,000)
Total expenditures	<u>3,560,846</u>	<u>4,064,487</u>	<u>3,979,573</u>	<u>84,914</u>
Excess (Deficiency) of Revenues Over Expenditures	167,140	(336,501)	(146,236)	190,265
Fund Balance, Beginning of Year	<u>5,295,499</u>	<u>5,295,499</u>	<u>5,295,499</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 5,462,639</u>	<u>\$ 4,958,998</u>	<u>\$ 5,149,263</u>	<u>\$ 190,265</u>

Cinco Southwest Municipal Utility District No. 2
Notes to Required Supplementary Information
May 31, 2019

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was amended during fiscal 2019.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Cinco Southwest Municipal Utility District No. 2
Other Schedules Included Within This Report
May 31, 2019

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

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 12-26
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Cinco Southwest Municipal Utility District No. 2

Schedule of Services and Rates

Year Ended May 31, 2019

1. Services provided by the District:

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

2. Retail service providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 13.25	1,000	N	\$ 1.05	1,001 to 30,000
				\$ 1.50	30,001 to No Limit
Wastewater:	\$ 13.25	1,000	N	\$ 1.45	1,001 to No Limit
Regional water fee:	\$ 4.16	1	N	\$ 4.16	1,001 to No Limit
Does the District employ winter averaging for wastewater usage?					Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Total charges per 10,000 gallons usage (including fees):				Water \$ 64.30	Wastewater \$ 26.30

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	1,407	1,403	x1.0	1,403
1"	446	445	x2.5	1,113
1 1/2"	16	16	x5.0	80
2"	55	55	x8.0	440
3"	2	2	x15.0	30
4"	1	1	x25.0	25
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	1,927	1,922		3,091
Total wastewater	1,831	1,826	x1.0	1,826

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	302,339
Gallons billed to customers:	302,339
Water accountability ratio (gallons billed/gallons pumped):	100.00%

*"ESFC" means equivalent single-family connections

Cinco Southwest Municipal Utility District No. 2
Schedule of General Fund Expenditures
Year Ended May 31, 2019

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$ 21,200		
Legal	66,476		
Engineering	18,716		
Financial advisor	-		
	<u> -</u>		106,392
Purchased Services for Resale			
Bulk water and wastewater service purchases			993,564
Regional Water Fee			1,190,422
Contracted Services			
Bookkeeping	12,532		
General manager	-		
Appraisal district	-		
Tax collector	-		
Security	29,335		
Other contracted services	<u>101,155</u>		143,022
Utilities			-
Repairs and Maintenance			87,599
Administrative Expenditures			
Directors' fees	7,200		
Office supplies	7,019		
Insurance	6,254		
Other administrative expenditures	<u>19,982</u>		40,455
Capital Outlay			
Capitalized assets	1,043,641		
Expenditures not capitalized	<u> -</u>		1,043,641
Tap Connection Expenditures			12,460
Solid Waste Disposal			362,018
Fire Fighting			-
Parks and Recreation			-
Other Expenditures			<u> -</u>
Total expenditures		<u>\$</u>	<u>3,979,573</u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Temporary Investments
May 31, 2019

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
TexPool	2.43%	Demand	<u>\$ 5,282,869</u>	<u>\$ 0</u>
Debt Service Fund				
TexPool	2.43%	Demand	1,876,883	-
TexPool	2.43%	Demand	1,054,369	-
TexPool	2.43%	Demand	<u>1,995,509</u>	<u>-</u>
			<u>4,926,761</u>	<u>0</u>
Totals			<u><u>\$ 10,209,630</u></u>	<u><u>\$ 0</u></u>

Cinco Southwest Municipal Utility District No. 2
Analysis of Taxes Levied and Receivable
Year Ended May 31, 2019

	Maintenance Taxes	Contract Taxes	Debt Service Taxes	Road Debt Service Taxes
Receivable, Beginning of Year	\$ 13,562	\$ 44,447	\$ 20,191	\$ 4,110
Additions and corrections to prior years' taxes	(1,473)	(4,931)	(2,228)	(463)
Adjusted receivable, beginning of year	12,089	39,516	17,963	3,647
2018 Original Tax Levy	1,314,219	3,633,429	1,762,599	324,689
Additions and corrections	10,967	30,320	14,709	2,709
Adjusted tax levy	1,325,186	3,663,749	1,777,308	327,398
Total to be accounted for	1,337,275	3,703,265	1,795,271	331,045
Tax collections: Current year	(1,314,354)	(3,633,802)	(1,762,781)	(324,722)
Prior years	(7,982)	(25,073)	(11,713)	(2,261)
Receivable, end of year	<u>\$ 14,939</u>	<u>\$ 44,390</u>	<u>\$ 20,777</u>	<u>\$ 4,062</u>
Receivable, End of Year				
2018	\$ 10,832	\$ 29,947	\$ 14,527	\$ 2,676
2017	1,239	3,872	1,820	348
2016	1,342	4,393	1,871	407
2015	1,077	4,383	1,820	446
2014	449	1,795	739	185
Receivable, end of year	<u>\$ 14,939</u>	<u>\$ 44,390</u>	<u>\$ 20,777</u>	<u>\$ 4,062</u>

Cinco Southwest Municipal Utility District No. 2
Analysis of Taxes Levied and Receivable (Continued)
Year Ended May 31, 2019

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Property Valuations				
Land	\$ 187,139,505	\$ 167,906,865	\$ 162,620,845	\$ 159,326,725
Improvements	588,625,506	599,432,073	610,393,293	574,406,910
Personal property	31,262,790	21,919,400	20,747,570	18,559,560
Exemptions	<u>(27,506,825)</u>	<u>(20,279,466)</u>	<u>(16,925,925)</u>	<u>(13,196,239)</u>
Total property valuations	<u>\$ 779,520,976</u>	<u>\$ 768,978,872</u>	<u>\$ 776,835,783</u>	<u>\$ 739,096,956</u>
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.2280	\$ 0.2350	\$ 0.2300	\$ 0.2450
Contract tax rates	0.4700	0.5000	0.5400	0.5900
Road debt service tax rates	0.0420	0.0450	0.0500	0.0600
Maintenance tax rates*	<u>0.1700</u>	<u>0.1600</u>	<u>0.1650</u>	<u>0.1450</u>
Total tax rates per \$100 valuation	<u>\$ 0.9100</u>	<u>\$ 0.9400</u>	<u>\$ 0.9850</u>	<u>\$ 1.0400</u>
Tax Levy	<u>\$ 7,093,641</u>	<u>\$ 7,228,401</u>	<u>\$ 7,651,832</u>	<u>\$ 7,686,608</u>
Percent of Taxes Collected to Taxes Levied**				
	<u>99%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

*Maximum tax rate approved by voters: \$1.50 on November 8, 2005

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

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2009		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 340,000	\$ 43,455	\$ 383,455
2021	360,000	22,455	382,455
2022	185,000	5,827	190,827
Totals	\$ 885,000	\$ 71,737	\$ 956,737

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Road Series 2009		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 170,000	\$ 12,875	\$ 182,875
2021	185,000	4,440	189,440
Totals	\$ 355,000	\$ 17,315	\$ 372,315

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2011		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 185,000	\$ 126,545	\$ 311,545
2021	185,000	119,608	304,608
2022	185,000	112,948	297,948
2023	185,000	105,918	290,918
2024	185,000	98,471	283,471
2025	185,000	90,794	275,794
2026	185,000	82,885	267,885
2027	185,000	74,745	259,745
2028	185,000	66,281	251,281
2029	185,000	57,493	242,493
2030	180,000	48,825	228,825
2031	180,000	40,275	220,275
2032	180,000	31,500	211,500
2033	180,000	22,500	202,500
2034	180,000	13,500	193,500
2035	180,000	4,500	184,500
Totals	<u>\$ 2,930,000</u>	<u>\$ 1,096,788</u>	<u>\$ 4,026,788</u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Refunding Series 2012		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 285,000	\$ 168,975	\$ 453,975
2021	290,000	160,350	450,350
2022	305,000	151,425	456,425
2023	315,000	142,125	457,125
2024	325,000	132,525	457,525
2025	335,000	122,625	457,625
2026	345,000	112,425	457,425
2027	355,000	101,925	456,925
2028	365,000	91,125	456,125
2029	370,000	80,100	450,100
2030	380,000	68,612	448,612
2031	390,000	56,338	446,338
2032	405,000	41,900	446,900
2033	415,000	25,500	440,500
2034	430,000	8,600	438,600
Totals	<u>\$ 5,310,000</u>	<u>\$ 1,464,550</u>	<u>\$ 6,774,550</u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2012A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 65,000	\$ 41,438	\$ 106,438
2021	65,000	38,675	103,675
2022	65,000	36,725	101,725
2023	65,000	34,775	99,775
2024	65,000	32,825	97,825
2025	65,000	30,875	95,875
2026	65,000	28,925	93,925
2027	65,000	26,975	91,975
2028	65,000	25,025	90,025
2029	65,000	23,075	88,075
2030	65,000	21,044	86,044
2031	65,000	18,931	83,931
2032	65,000	16,819	81,819
2033	65,000	14,706	79,706
2034	65,000	12,512	77,512
2035	65,000	10,237	75,237
2036	65,000	7,962	72,962
2037	65,000	5,687	70,687
2038	65,000	3,412	68,412
2039	65,000	1,137	66,137
Totals	<u>\$ 1,300,000</u>	<u>\$ 431,760</u>	<u>\$ 1,731,760</u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2012B		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 40,000	\$ 25,700	\$ 65,700
2021	40,000	24,000	64,000
2022	40,000	22,800	62,800
2023	40,000	21,600	61,600
2024	40,000	20,400	60,400
2025	40,000	19,200	59,200
2026	40,000	17,975	57,975
2027	40,000	16,725	56,725
2028	40,000	15,475	55,475
2029	40,000	14,225	54,225
2030	40,000	12,950	52,950
2031	40,000	11,650	51,650
2032	40,000	10,350	50,350
2033	40,000	9,050	49,050
2034	40,000	7,700	47,700
2035	40,000	6,300	46,300
2036	40,000	4,900	44,900
2037	40,000	3,500	43,500
2038	40,000	2,100	42,100
2039	40,000	700	40,700
Totals	\$ 800,000	\$ 267,300	\$ 1,067,300

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Refunding Series 2015		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 130,000	\$ 315,363	\$ 445,363
2021	135,000	311,388	446,388
2022	335,000	304,338	639,338
2023	530,000	294,013	824,013
2024	545,000	282,581	827,581
2025	560,000	268,050	828,050
2026	575,000	251,025	826,025
2027	590,000	230,600	820,600
2028	610,000	206,600	816,600
2029	630,000	181,800	811,800
2030	650,000	156,200	806,200
2031	670,000	129,800	799,800
2032	695,000	102,500	797,500
2033	715,000	74,300	789,300
2034	740,000	45,200	785,200
2035	760,000	15,200	775,200
Totals	\$ 8,870,000	\$ 3,168,958	\$ 12,038,958

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Road Refunding Series 2016		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 20,000	\$ 149,900	\$ 169,900
2021	25,000	149,225	174,225
2022	215,000	145,625	360,625
2023	225,000	139,025	364,025
2024	235,000	132,125	367,125
2025	245,000	124,925	369,925
2026	255,000	117,425	372,425
2027	265,000	108,300	373,300
2028	275,000	97,500	372,500
2029	285,000	86,300	371,300
2030	300,000	74,600	374,600
2031	315,000	62,300	377,300
2032	325,000	49,500	374,500
2033	345,000	36,100	381,100
2034	355,000	22,100	377,100
2035	375,000	7,500	382,500
Totals	<u>\$ 4,060,000</u>	<u>\$ 1,502,450</u>	<u>\$ 5,562,450</u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 1,235,000	\$ 884,251	\$ 2,119,251
2021	1,285,000	830,141	2,115,141
2022	1,330,000	779,688	2,109,688
2023	1,360,000	737,456	2,097,456
2024	1,395,000	698,927	2,093,927
2025	1,430,000	656,469	2,086,469
2026	1,465,000	610,660	2,075,660
2027	1,500,000	559,270	2,059,270
2028	1,540,000	502,006	2,042,006
2029	1,575,000	442,993	2,017,993
2030	1,615,000	382,231	1,997,231
2031	1,660,000	319,294	1,979,294
2032	1,710,000	252,569	1,962,569
2033	1,760,000	182,156	1,942,156
2034	1,810,000	109,612	1,919,612
2035	1,420,000	43,737	1,463,737
2036	105,000	12,862	117,862
2037	105,000	9,187	114,187
2038	105,000	5,512	110,512
2039	105,000	1,837	106,837
Totals	<u>\$ 24,510,000</u>	<u>\$ 8,020,858</u>	<u>\$ 32,530,858</u>

Cinco Southwest Municipal Utility District No. 2
Changes in Long-term Bonded Debt
Year Ended May 31, 2019

	Bond		
	Series 2009	Road Series 2009	Series 2011
Interest rates	6.00% to 6.30%	4.70% to 5.50%	3.50% to 5.00%
Dates interest payable	September 1/ March 1	September 1/ March 1	September 1/ March 1
Maturity dates	September 1, 2019/2021	September 1, 2019/2020	September 1, 2019/2034
Bonds outstanding, beginning of current year	\$ 1,205,000	\$ 515,000	\$ 3,115,000
Retirements, principal	320,000	160,000	185,000
Bonds outstanding, end of current year	\$ 885,000	\$ 355,000	\$ 2,930,000
Interest paid during current year	\$ 63,255	\$ 20,550	\$ 133,945

Paying agent's name and address:

Series 2009 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2009 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2011 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012A - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012B - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2015 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2016 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 270,000,000	\$ 50,000,000	\$ 270,000,000
Amount issued	\$ 19,395,000	\$ 10,845,000	\$ 19,740,000
Remaining to be issued	\$ 250,605,000	\$ 39,155,000	\$ 250,260,000

Debt service fund cash and temporary investment balances as of May 31, 2019: \$ 5,034,802

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,626,543

Issues

Refunding Series 2012	Series 2012A	Series 2012B	Refunding Series 2015	Road Refunding Series 2016	Totals
2.00% to 4.00%	3.00% to 5.50%	3.00% to 5.50%	2.00% to 4.00%	2.00% to 4.00%	
September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	
September 1, 2019/2033	September 1, 2019/2038	September 1, 2019/2038	September 1, 2019/2034	September 1, 2019/2034	
\$ 5,585,000	\$ 1,365,000	\$ 840,000	\$ 9,000,000	\$ 4,080,000	\$ 25,705,000
<u>275,000</u>	<u>65,000</u>	<u>40,000</u>	<u>130,000</u>	<u>20,000</u>	<u>1,195,000</u>
<u>\$ 5,310,000</u>	<u>\$ 1,300,000</u>	<u>\$ 800,000</u>	<u>\$ 8,870,000</u>	<u>\$ 4,060,000</u>	<u>\$ 24,510,000</u>
<u>\$ 177,375</u>	<u>\$ 45,013</u>	<u>\$ 27,900</u>	<u>\$ 318,612</u>	<u>\$ 150,400</u>	<u>\$ 937,050</u>

Cinco Southwest Municipal Utility District No. 2
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended May 31,

	Amounts				
	2019	2018	2017	2016	2015
General Fund					
Revenues					
Property taxes	\$ 1,322,336	\$ 1,232,855	\$ 1,276,739	\$ 1,073,704	\$ 1,120,852
Water service	943,530	943,068	951,708	945,109	916,605
Sewer service	223,113	261,336	264,238	251,326	211,880
Regional water authority	1,169,568	1,098,889	999,190	903,445	790,733
Penalty and interest	15,831	18,174	25,625	27,227	32,425
Tap connection and inspection fees	11,472	43,535	34,275	149,800	117,895
Investment income	109,795	60,683	20,459	7,627	2,915
Other income	37,692	36,122	1,952	580	500
Total revenues	<u>3,833,337</u>	<u>3,694,662</u>	<u>3,574,186</u>	<u>3,358,818</u>	<u>3,193,805</u>
Expenditures					
Service operations:					
Purchased services	993,564	1,004,058	994,620	972,675	964,788
Regional water authority	1,190,422	1,115,916	1,011,040	915,257	807,780
Professional fees	106,392	131,314	94,477	81,285	82,365
Contracted services	143,022	143,535	118,812	102,586	88,418
Solid waste	362,018	353,696	346,776	354,974	354,261
Repairs and maintenance	87,599	93,837	151,552	125,440	107,149
Other expenditures	40,455	44,745	56,998	54,311	53,133
Tap connections	12,460	13,470	12,210	78,355	56,180
Capital outlay	1,043,641	33,779	67,516	-	-
Total expenditures	<u>3,979,573</u>	<u>2,934,350</u>	<u>2,854,001</u>	<u>2,684,883</u>	<u>2,514,074</u>
Excess (Deficiency) of Revenues Over Expenditures	(146,236)	760,312	720,185	673,935	679,731
Other Financing Uses					
Repayment of developer advances	-	(490,000)	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(146,236)	270,312	720,185	673,935	679,731
Fund Balance, Beginning of Year	<u>5,295,499</u>	<u>5,025,187</u>	<u>4,305,002</u>	<u>3,631,067</u>	<u>2,951,336</u>
Fund Balance, End of Year	<u>\$ 5,149,263</u>	<u>\$ 5,295,499</u>	<u>\$ 5,025,187</u>	<u>\$ 4,305,002</u>	<u>\$ 3,631,067</u>
Total Active Retail Water Connections	<u>1,922</u>	<u>1,922</u>	<u>1,912</u>	<u>1,907</u>	<u>1,904</u>
Total Active Retail Wastewater Connections	<u>1,826</u>	<u>1,827</u>	<u>1,820</u>	<u>1,819</u>	<u>1,818</u>

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
34.5 %	33.4 %	35.7 %	32.0 %	35.1 %
24.6	25.5	26.6	28.1	28.7
5.8	7.1	7.4	7.5	6.6
30.5	29.7	28.0	26.9	24.8
0.4	0.5	0.7	0.8	1.0
0.3	1.2	0.9	4.5	3.7
2.9	1.6	0.6	0.2	0.1
1.0	1.0	0.1	0.0	0.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
25.9	27.2	27.8	28.9	30.2
31.1	30.2	28.3	27.3	25.3
2.8	3.5	2.6	2.4	2.6
3.7	3.9	3.3	3.1	2.8
9.4	9.6	9.7	10.6	11.1
2.3	2.5	4.2	3.7	3.3
1.1	1.2	1.6	1.6	1.7
0.3	0.4	0.3	2.3	1.7
27.2	0.9	1.9	-	-
<u>103.8</u>	<u>79.4</u>	<u>79.7</u>	<u>79.9</u>	<u>78.7</u>
<u>(3.8) %</u>	<u>20.6 %</u>	<u>20.3 %</u>	<u>20.1 %</u>	<u>21.3 %</u>

Cinco Southwest Municipal Utility District No. 2
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended May 31,

	Amounts				
	2019	2018	2017	2016	2015
Debt Service Fund					
Revenues					
Property taxes	\$ 5,760,352	\$ 6,010,271	\$ 6,357,723	\$ 6,625,724	\$ 6,797,950
Penalty and interest	47,042	50,433	58,589	58,661	34,110
Investment income	74,122	41,261	15,701	7,507	2,732
Total revenues	<u>5,881,516</u>	<u>6,101,965</u>	<u>6,432,013</u>	<u>6,691,892</u>	<u>6,834,792</u>
Expenditures					
Current:					
Contracted services	28,188	27,598	27,717	27,408	27,265
Other expenditures	79,304	76,742	73,751	74,787	65,585
Debt service:					
Principal retirement	1,195,000	1,160,000	1,135,000	1,115,000	900,000
Interest and fees	943,352	991,096	1,026,218	1,113,845	1,423,231
Debt issuance costs	-	-	-	164,647	306,126
Debt defeasance	-	-	-	365,079	-
Contractual obligation	3,802,308	4,039,779	4,249,296	4,424,122	4,651,898
Total expenditures	<u>6,048,152</u>	<u>6,295,215</u>	<u>6,511,982</u>	<u>7,284,888</u>	<u>7,374,105</u>
Deficiency of Revenues Over Expenditures	<u>(166,636)</u>	<u>(193,250)</u>	<u>(79,969)</u>	<u>(592,996)</u>	<u>(539,313)</u>
Other Financing Sources (Uses)					
Interfund transfers in	-	-	-	365,089	-
General obligation bonds issued	-	-	-	4,135,000	9,425,000
Premium on debt issued	-	-	-	310,459	477,446
Deposit with escrow agent	-	-	-	(4,277,536)	(9,593,278)
Total other financing sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>533,012</u>	<u>309,168</u>
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(166,636)</u>	<u>(193,250)</u>	<u>(79,969)</u>	<u>(59,984)</u>	<u>(230,145)</u>
Fund Balance, Beginning of Year	<u>5,175,720</u>	<u>5,368,970</u>	<u>5,448,939</u>	<u>5,508,923</u>	<u>5,739,068</u>
Fund Balance, End of Year	<u>\$ 5,009,084</u>	<u>\$ 5,175,720</u>	<u>\$ 5,368,970</u>	<u>\$ 5,448,939</u>	<u>\$ 5,508,923</u>

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
97.9 %	98.5 %	98.9 %	99.0 %	99.5 %
0.8	0.8	0.9	0.9	0.5
1.3	0.7	0.2	0.1	0.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.5	0.5	0.4	0.4	0.4
1.4	1.3	1.1	1.1	1.0
20.3	19.0	17.6	16.7	13.2
16.0	16.2	16.0	16.6	20.8
-	-	-	2.5	4.5
-	-	-	5.5	-
<u>64.6</u>	<u>66.2</u>	<u>66.1</u>	<u>66.1</u>	<u>68.0</u>
<u>102.8</u>	<u>103.2</u>	<u>101.2</u>	<u>108.9</u>	<u>107.9</u>
<u>(2.8) %</u>	<u>(3.2) %</u>	<u>(1.2) %</u>	<u>(8.9) %</u>	<u>(7.9) %</u>

Cinco Southwest Municipal Utility District No. 2
Board Members, Key Personnel and Consultants
Year Ended May 31, 2019

Complete District mailing address:	Cinco Southwest Municipal Utility District No. 2 Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	July 23, 2019
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Alan Hirshman	Elected 05/18- 05/22	\$ 1,500	\$ 33	President
Gary Kob	Elected 05/18- 05/22	1,650	145	Vice President
Cregg McGaha	Elected 05/18- 05/22	1,200	112	Secretary
Whitney Smith	Appointed 09/18- 05/20	1,050	160	Assistant Vice President
Robert Anderson	Appointed 02/18- 05/20	1,500	10	Assistant Secretary
Chester Pleasant	Elected 05/16- 06/18	300	37	Resigned

*Fees are the amounts actually paid to a director during the District's fiscal year.

Cinco Southwest Municipal Utility District No. 2
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2019

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	07/08/05	\$ 66,476	General Counsel
BGE, Inc.	09/27/12	18,716	Engineer
BKD, LLP	04/27/06	21,200	Auditor
District Data Services, Inc.	07/08/05	13,532	Bookkeeper
Fort Bend Central Appraisal District	Legislative Action	47,263	Appraiser
Inframark, LLC	07/08/05	202,287	Operator
Masterson Advisors LLC	04/24/18	0	Financial Advisor
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/23/06	8,359	Delinquent Tax Attorney
Utility Tax Service, LLC	07/08/05	43,573	Tax Assessor/ Collector
Investment Officer			
Wendy Austin	10/26/06	N/A	Bookkeeper

APPENDIX B

Specimen Municipal Bond Insurance Policy



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

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

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

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

Telecopy:

212-962-1524 (attention: Claims)

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