

OFFICIAL STATEMENT DATED OCTOBER 24, 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 AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS.”

NEW ISSUE-Book-Entry Only

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

\$3,265,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 365
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX REFUNDING BONDS
SERIES 2019

Dated: November 1, 2019

Due: September 1, as shown below

Principal of the bonds described above (the “Bonds”) will be payable at stated maturity or redemption upon presentation of the Bonds at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. (the “Paying Agent/Registrar,” “Paying Agent” or “Registrar”) in Dallas, Texas. Interest on the Bonds will accrue from November 1, 2019 and be payable on March 1, 2020 (four months of interest) and on each September 1 and March 1 thereafter until the earlier of maturity or redemption. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Bonds will be issued only in fully registered form in \$5,000 denominations or integral multiples thereof. The Bonds are subject to redemption prior to maturity as shown below.

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



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

MATURITY SCHEDULE

Due (Sept. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Due (Sept. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	\$ 30,000	3.00 %	1.48 %	413955 GC3	2023	\$ 875,000	3.00 %	1.56 %	413955 GF6
2021	320,000	3.00	1.48	413955 GD1	2024	860,000	3.00	1.63	413955 GG4
2022	725,000	3.00	1.50	413955 GE9	2025	455,000 (c)	2.00	1.78	413955 GH2

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest from November 1, 2019, is to be added to the price.
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) The Bonds maturing on September 1, 2025, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

The Bonds, when issued, will constitute valid and legally binding obligations of Harris County Municipal Utility District No. 365 (the “District”) and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. The Bonds are subject to special investment risks described herein. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Bond Counsel. Certain legal matters will be passed on for the Underwriter by McCall, Parkhurst & Horton L.L.P. Houston, Texas, as Underwriter’s Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about November 21, 2019.

SAMCO CAPITAL

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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."

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

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$3,376,127.41 (representing the par amount of the Bonds of \$3,265,000.00, plus a premium on the Bonds of \$142,834.15, less an Underwriter’s discount of \$31,706.74) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

Prices and Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed at any 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 that stabilize or maintain the market prices of the Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

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

THE FINANCING

- The Issuer*.....Harris County Municipal Utility District No. 365 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”
- The Issue*.....\$3,265,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”) are issued pursuant to a resolution (the “Bond Resolution”) of the District's Board of Directors authorizing the issuance of the Bonds. The Bonds will be issued as fully registered bonds maturing in the years and in the amounts and paying interest at the rates shown on the cover hereof. Interest on the Bonds accrues from November 1, 2019 and is payable on March 1, 2020 (four months of interest), and on each September 1 and March 1 thereafter until the earlier of maturity or prior redemption. See “THE BONDS.”
- Book-Entry-Only*The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered 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.”
- Redemption*.....The Bonds maturing on September 1, 2025, are subject to redemption, in whole or from time to time in part, at the option of the District, prior to their maturity date, on September 1, 2024, or on any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. See “THE BONDS—Redemption Provisions.”
- Source of Payment*.....The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “TAX PROCEDURES.” The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any other political subdivision or agency other than the District. See “THE BONDS—Source of and Security for Payment.”
- Payment Record*The District has previously issued four series of unlimited tax bonds and four series of unlimited tax refunding bonds, of which \$6,340,000 principal amount is outstanding (the “Outstanding Bonds”) as of the date hereof. See “FINANCIAL STATEMENT—Outstanding Bonds.” The District has never defaulted in the payment of principal and interest on the Outstanding Bonds.
- Use of Proceeds*.....Proceeds from the sale of the Bonds will be used to currently refund and defease \$3,235,000 of the District’s Outstanding Bonds in order to achieve annual and net present value savings in the District’s annual debt service expense. The Bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” Bond proceeds will also be used to pay certain costs associated with issuance of the Bonds, including the payment of any insurance premium. After the issuance of the Bonds, \$3,105,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING—Refunded Bonds”, “—Sources and Uses of Funds” and “FINANCIAL STATEMENT—Outstanding Bonds.”
- Qualified Tax-Exempt Obligations*.....The District has designated the Bonds to be “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”

<i>Municipal Bond Rating and Municipal Bond Insurance</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”). S&P has also assigned an underlying rating of “A+” to the Bonds. An explanation of the ratings may be obtained from S&P. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”
<i>Bond Counsel</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT,” “LEGAL MATTERS,” and “TAX MATTERS.”
<i>Underwriter’s Counsel</i>	McCall, Parkhurst & Horton L.L.P, Houston, Texas.
<i>Financial Advisor</i>	Masterson Advisors LLC, Houston, Texas.
<i>Paying Agent/Registrar</i>	The Bank of New York Mellon Trust Company, N. A., Dallas, Texas.
<i>Paying Agent for the Refunded Bonds</i>	The Bank of New York Mellon Trust Company, N. A., Dallas, Texas.
<i>Verification Agent</i>	Public Finance Partners LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

HURRICANE HARVEY AND FLOOD PROTECTION

General.....The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced 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 26, 2017, and brought historic levels of rainfall during the successive four days.

Impact on the District.....According Si Environmental, LLC (the District’s “Operator”), the District’s system did not sustain any material damage from Hurricane Harvey and here was no interruption of water service during or after the storm. According to the District’s Operator, one of the District’s lift stations lost power due to high water, but was repaired and put back into service the same day and there was no other interruption of sewer service during or after the storm. Further, to the knowledge of the District, no taxable improvements within the District experienced structural flooding or other material damage.

If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to 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 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 would be adversely affected. See “INVESTMENT CONSIDERATIONS—Hurricane Harvey.”

THE DISTRICT

DescriptionThe District was created by order of the Texas Natural Resource Conservation Commission, predecessor of the Texas Commission on Environmental Quality (the “TCEQ”), dated June 26, 1996. The District contains approximately 717 acres of land located in the northwest portion of Harris County, approximately 22 miles from downtown Houston, Texas. The District is bounded on the north by Spring-Cypress Road and is located west of Telge Road and north of U.S. Highway 290. The District lies entirely within the extraterritorial jurisdiction of the City of Houston. See “THE DISTRICT—General.”

Status of DevelopmentThe District is a portion of the Coles Crossing community and The Park at Arbordale community. The Coles Crossing and The Park at Arbordale developments collectively encompass 1,261 acres, including single-family, multi-family and commercial usages. Such acreage is located within the boundaries of the District and Harris County Municipal Utility District No. 364 (“MUD 364”). Development of Coles Crossing began in 1997. As of July 31, 2019, there are a total of 3,018 water connections in Coles Crossing and The Park at Arbordale, of which 1,182 are located in the District and 1,836 are located in MUD 364.

The District provides water, sanitary sewer and drainage facilities to serve Coles Crossing, Sections 1 through 8, 11, 12, 18, 23, 24, and 25, the portion of Coles Crossing, Section 10 located within the District and The Park at Arbordale, Sections 1 and 2 (collectively, approximately 430 acres of land developed into 1,091 single family residential lots). Construction of underground utilities and street paving is complete in these sections. As of September 18, 2019, the District contained approximately 1,087 single family homes completed and occupied, 2 single family home completed and not occupied and 2 vacant lots available for homebuilding. According to the 2019 tax rolls of the District, the average homestead value is approximately \$362,615.

Commercial development in the District encompasses approximately 69 acres of land and includes a shopping center anchored by an approximately 70,000 square foot Star Furniture. The shopping center includes approximately 20 additional businesses. Other commercial development includes two retail banking facilities, a 17,500 square foot shopping center that includes three restaurants and six retail and personal service businesses, a retail fuel station, a daycare center, a 28,000 square foot two story office building, a CVS Pharmacy, a Walgreens, a car care facility, a dry cleaners, a Cheddar’s restaurant, four 9,975 square foot retail buildings that include 13 retail and personal service businesses and five restaurants, a 45,000 square foot fitness center, a Texas Furniture Hut, a Brake Check, a Saltgrass Steakhouse and a Courtyard by Marriott Hotel. Multifamily development in the District consists of Broadstone Coles Crossing, a 370-unit apartment project (which according to property management is approximately 96% occupied). An additional 5 acres of land is currently reserved for future commercial development. Other improvements in the District include the Coles Crossing Community Center, which has been constructed on approximately 7 acres of land in the District. Amenities include a family swimming pool, playground, park and picnic amenities, sports fields, fitness trails and outdoor entertaining areas.

In addition to the development described above, the District presently contains approximately 58 acres contained in various easements, rights-of-way, and plant sites and approximately 148 acres which are presently within the 100-year flood plain designation. See “THE DISTRICT—Land Use” and “—Status of Development.”

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

2019 Taxable Assessed Valuation.....	\$531,395,424 (a)
Gross Direct Debt Outstanding	\$ 6,370,000 (b)
Estimated Overlapping Debt	<u>30,185,919 (c)</u>
Gross Direct Debt and Estimated Overlapping Debt.....	\$36,555,919
Ratio of Gross Direct Debt to:	
2019 Taxable Assessed Valuation	1.20%
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Taxable Assessed Valuation.....	6.88%
Operating Fund Balance as of October 17, 2019.....	\$3,953,565
Debt Service Fund Balance as of October 17, 2019	\$466,644
2019 Tax Rate:	
Debt Service	\$0.28
Maintenance and Operations	<u>0.19</u>
Total.....	\$0.47/\$100 A.V.
Average Annual Debt Service Requirements (2020-2025) of the Bonds and the Remaining Outstanding Bonds (“Average Annual Requirement”)	\$1,152,215 (d)
Tax rate required to pay Average Annual Requirement based upon:	
2019 Taxable Assessed Valuation at a 95% collection rate	\$0.23 (e)
Maximum Annual Debt Service Requirements (2020) of the Bonds and the Remaining Outstanding Bonds (“Maximum Annual Requirement”)	\$1,446,515 (d)
Tax rate required to pay Maximum Annual Requirement based upon:	
2019 Taxable Assessed Valuation at a 95% collection rate	\$0.29 (e)
Status of water and sewer connections as of September 18, 2019 (f):	
Single-Family Residential – Completed and Occupied.....	1,087
Single-Family Residential – Completed and Unoccupied.....	2
Builder.....	0
Vacant lots Available for Homebuilding.....	2
Multi-Family Connections (370-units).....	1
Commercial Connections	27
Other (Irrigation, Rental and District).....	<u>65</u>
Total	1,182
Estimated 2019 Population.....	4,544 (g)

- (a) The 2019 Taxable Assessed Valuation shown herein includes \$502,174,977 of certified value and \$29,220,447 of uncertified value. The uncertified value represents the landowners’ opinion of the value; however, such value is subject to change and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Harris County Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) After the issuance of the Bonds and excludes the Refunded Bonds. See “FINANCIAL STATEMENT—Outstanding Bonds.”
- (c) See “ESTIMATED OVERLAPPING DEBT STATEMENT.”
- (d) See “FINANCIAL STATEMENT—Debt Service Requirements.”
- (e) See “TAX DATA—Tax Adequacy for Debt Service.”
- (f) See “THE DISTRICT—Land Use” and “Status of Development.”
- (g) Based upon 3.5 persons per occupied single-family connection and 2 persons per multi-family apartment unit.

OFFICIAL STATEMENT

\$3,265,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 365
(A political subdivision of the State of Texas located within Harris County)

**UNLIMITED TAX REFUNDING BONDS
SERIES 2019**

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 365 (the “District”) of its \$3,265,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, 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, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

PLAN OF FINANCING

Purpose

At a bond election held within the District on August 10, 1996, the voters of the District authorized the issuance of \$41,200,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing a water, wastewater and storm drainage system in the District and \$24,720,000 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District. See “THE BONDS—Authority for Issuance.”

The proceeds of the Bonds will be used to currently refund and defease outstanding portions of the District’s original issue of \$4,000,000 Unlimited Tax Refunding Bonds, Series 2010, and \$5,135,000 Unlimited Tax Refunding Bonds, Series 2011, totaling \$3,235,000 (the “Refunded Bonds”), in order to achieve a net savings in the District’s debt service expense. See “Refunded Bonds” herein. The proceeds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds” herein. A total of \$3,105,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”). See “Refunded Bonds” herein and “FINANCIAL STATEMENT—Outstanding Bonds.”

Refunded Bonds

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

Maturity Date September 1	Series 2010	Series 2011
2021	\$ 310,000	\$ -
2022	325,000	390,000
2023	390,000	485,000
2024	385,000	480,000
2025	-	470,000
	\$ 1,410,000	\$ 1,825,000
Redemption Date:	December 3, 2019	December 3, 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	\$3,265,000.00
Plus: Premium on the Bonds.....	142,834.15
Total Sources of Funds.....	\$3,407,834.15
Uses of Funds:	
Cash Deposit to Paying Agent for Refunded Bonds.....	\$3,267,892.02
Issuance Expenses and Underwriters’ Discount (a).....	139,942.13
Total Uses of Funds	\$3,407,834.15

(a) Includes municipal bond insurance premium.

Defeasance of Refunded Bonds

The Refunded Bonds, and the interest due thereon, are to be paid on each principal or Interest Payment Date and 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 resolutions of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of so deposited, and the amounts so deposited in the Payment Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

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, Harris County, the City of Houston, or any entity other than the District.

Funds

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

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

No Arbitrage

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

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on September 1, 2025, prior to their scheduled maturity, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2024, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

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

Authority for Issuance

At a bond election held within the District on August 10, 1996, voters of the District authorized the issuance of a total of \$24,720,000 principal amount of unlimited tax refunding bonds. After the issuance of the Bonds, \$23,624,636.17 principal amount of authorized and unissued unlimited tax refunding bonds will remain from such authorization. See “Issuance of Additional Debt” herein.

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, an election held within the District, and the 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. See “LEGAL MATTERS—Legal Proceedings.”

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 should be 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 bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

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 \$41,200,000 principal amount of unlimited tax bonds for the purpose of constructing and or acquiring a waterworks, sanitary sewer and storm sewer system (the "System") and \$24,720,000 principal amount of unlimited tax bonds for refunding purposes and could authorize additional amounts. The District currently has \$21,205,000 principal amount of unlimited tax bonds for construction of the System that remain authorized but unissued, and after the issuance of the Bonds, the District will have \$23,624,636.17 principal amount of unlimited tax refunding bonds authorized but unissued.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the Texas Commission on Environmental Quality (the "TCEQ"); and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time.

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) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election to authorize firefighting activities at this time.

Pursuant to Chapter 54 of the Texas Water Code, a municipal utility district may petition the TCEQ for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the TCEQ for "road powers" nor calling such an election at this time.

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

Annexation by the City of Houston

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

If the District is annexed, the City will assume the District's assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur. Under the terms of the SPA (as hereinafter defined) between the District and the City, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. See "Strategic Partnership Agreement" below.

Strategic Partnership Agreement

The District entered into a Strategic Partnership Agreement (the “SPA”) with the City of Houston (the “City”), effective April 9, 2007, pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a “limited purpose annexation” of approximately 80 acres of the District developed for retail and commercial purposes. Residential development within the District is not included in the limited purpose annexation. The SPA also provides that the City will not annex the District for “full purposes” for at least thirty (30) years from the effective date of the SPA.

Under the SPA, the City is authorized to impose the one percent (1%) retail City sales tax within the portion of the District included in the limited purpose annexation. The City pays to the District an amount equal to one-half of all retail sales tax revenues generated within such area of the District and received by the City from the Comptroller (herein defined as the “Contract Sales Tax Revenue”). Pursuant to State law, the District is authorized to use the Contract Sales Tax Revenue generated under the SPA for any lawful purpose. The District makes no representation that the undeveloped property covered by the limited purpose annexation will develop in the future or that the development of such property will result in the generation of a substantial amount of Contract Sales Tax Revenue. None of the anticipated Contract Sales Tax Revenue is pledged toward the payment of principal of and interest on the Bonds.

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 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. 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 or with a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and 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. Because the Bond Resolution does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investment quality as currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Underwriter take any responsibility for the accuracy thereof.

THE DISTRICT

General

Harris County Municipal Utility District No. 365 (the "District") is a municipal utility district created by order of the Texas Natural Resource Conservation Commission, predecessor to the Texas Commission on Environmental Quality (the "TCEQ"), dated June 26, 1996, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes applicable to municipal utility districts. The District is located wholly within the exclusive extraterritorial jurisdiction of the City of Houston, Texas ("Houston" or the "City") and within Cypress Fairbanks Independent School District.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, 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. Additionally, the District may, subject to certain limitations, develop and finance parks and recreational facilities and may also, subject to the granting of road powers by the TCEQ and certain limitations, develop and finance roads. See "THE BONDS—Issuance of Additional Debt" and "INVESTMENT CONSIDERATIONS—Future Debt."

The TCEQ exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, park facilities, roads and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; and require approval by the City of Houston of construction plans. Construction and operation of the District's system are subject to the regulatory jurisdiction of additional government agencies. See "THE SYSTEM."

The District contains approximately 717 acres of land and is located approximately 22 miles northwest of downtown Houston. The northern boundary of the District is adjacent to Spring-Cypress Road, and the District is located north of U.S. Highway 290 and west of Telge Road. All land within the District lies within the exclusive extraterritorial jurisdiction of the City of Houston.

Status of Development

The District is a portion of the Coles Crossing community and The Park at Arbordale community. The Coles Crossing and The Park at Arbordale developments collectively encompass 1,261 acres, including single-family, multi-family and commercial usages. Such acreage is located within the boundaries of the District and Harris County Municipal Utility District No. 364 (“MUD 364”). Development of Coles Crossing began in 1997. As of July 31, 2019, there are a total of 3,018 water connections in Coles Crossing and The Park at Arbordale, of which 1,182 are located in the District and 1,836 are located in MUD 364.

The District provides water, sanitary sewer and drainage facilities to serve Coles Crossing, Sections 1 through 8, 11, 12, 18, 23, 24, and 25, the portion of Coles Crossing, Section 10 located within the District and The Park at Arbordale, Sections 1 and 2 (collectively, approximately 430 acres of land developed into 1,091 single family residential lots). Construction of underground utilities and street paving is complete in these sections. As of September 18, 2019, the District contained approximately 1,087 single family homes completed and occupied, 2 single family home completed and not occupied and 2 vacant lots available for homebuilding. According to the 2019 tax rolls of the District, the average homestead value is approximately \$362,615.

Commercial development in the District encompasses approximately 69 acres of land and includes a shopping center anchored by an approximately 70,000 square foot Star Furniture. The shopping center includes approximately 20 additional businesses. Other commercial development includes two retail banking facilities, a 17,500 square foot shopping center that includes three restaurants and six retail and personal service businesses, a retail fuel station, a daycare center, a 28,000 square foot two story office building, a CVS Pharmacy, a Walgreens, a car care facility, a dry cleaners, a Cheddar’s restaurant, four 9,975 square foot retail buildings that include 13 retail and personal service businesses and five restaurants, a 45,000 square foot fitness center, a Texas Furniture Hut, a Brake Check, a Saltgrass Steakhouse and a Courtyard by Marriott Hotel. Multifamily development in the District consists of Broadstone Coles Crossing, a 370-unit apartment project (which according to property management is approximately 96% occupied). An additional 5 acres of land is currently reserved for future commercial development. Other improvements in the District include the Coles Crossing Community Center, which has been constructed on approximately 7 acres of land in the District. Amenities include a family swimming pool, playground, park and picnic amenities, sports fields, fitness trails and outdoor entertaining areas.

In addition to the development described above, the District presently contains approximately 58 acres contained in various easements, rights-of-way, and plant sites and approximately 148 acres which are presently within the 100-year flood plain designation.

Community Facilities

Community facilities are located in the general vicinity of the District. Neighborhood shopping facilities, including supermarkets, pharmacies, cleaners, restaurants, banking facilities and other retail and service establishments are located within four miles of the District along areas adjacent to U.S. 290. The District is located within Harris County Emergency Services District No. 9, which contracts with Cypress-Fairbanks Volunteer Fire Department for fire suppression and ambulance services. The land within the District is also located within the boundaries of Cypress-Fairbanks Independent School District, and children within the District attend elementary, junior high and high schools of Cypress-Fairbanks Independent School District located within two miles of the development in the District.

MANAGEMENT OF THE DISTRICT

Board of Directors

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Joe Myers	President	May 2020
Greg Coleman	Vice President	May 2022
Alan Silverman	Secretary	May 2020
Jeff McClellan	Assistant Secretary	May 2022
Angela Small	Assistant Vice President	May 2020

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

Attorney

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

Financial Advisor

Masterson Advisors LLC (the "Financial Advisor") serves as financial advisor to the District. The fees to be paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

Auditor

The financial statements of the District as of August 31, 2018, 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. The District has engaged BKD, LLP to audit its financial statements for the fiscal year ended August 31, 2019. See "APPENDIX A" for a copy of the District's August 31, 2018, financial statements.

Tax Assessor/Collector

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

Bookkeeper

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

System Operator

The District contracts with Si Environmental, LLC for maintenance and operation of the District's system.

Engineer

The consulting engineer for the District in connection with the design and construction of the District's facilities is Sander Engineering Corporation (the "Engineer").

THE SYSTEM

Regulation

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

Water, Sanitary Sewer and Drainage Facilities

Source of Water Supply: The District has entered into an agreement with MUD 364 to jointly own and operate permanent water plant facilities. According to the terms of the agreement, the District owns 47.4% of the permanent facilities. The remaining 52.51% is owned by MUD 364. The District's water supply is provided by its share of two water plants and one remote well. Water Plant No. 1 includes one 1,100 gallon per minute ("gpm") well, two 428,000 gallon ground storage tanks, two 15,000 gallon hydropneumatic tanks, four 1,000 gpm booster pumps, one generator, and related appurtenant equipment. Water Plant No. 2 includes a 1,200 gpm well, two 428,000 gallon ground storage tanks, two 10,000 gallon hydropneumatic tanks, four 1,000 gpm booster pumps, one generator, and related appurtenant equipment. The District is also responsible for a 1,100 gpm remote well. Because of the declining water table, the District lowered the pumps in all three wells and increased the capacity of all three wells from 1,100 gpm to 1,200 gpm. According to the Engineer, the joint water supply facilities are capable of serving approximately 3,185 equivalent single-family connections, of which 1,783 are allocated to the District and 1,402 are allocated to MUD 364. As of July 31, 2019, the District served approximately 1,182 equivalent single-family connections. The District has constructed a fourth well at Water Plant No. 2 to meet the expected demands of proposed developments within MUD 364. The well is expected to be on line, pending TCEQ approval. Additionally, the District is interconnected with Northwest Harris County Municipal Utility District No. 10 and MUD 364 is interconnected with Harris County Water Control and Improvement District No. 113 for emergency water supply needs.

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

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

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority’s GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority’s GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority’s GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$9.00 per 1,000 gallons (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority’s GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

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

Source of Wastewater Treatment: The District’s wastewater treatment is provided by a permanent 900,000 gpd wastewater treatment plant jointly owned and operated by the District and MUD 364. Pursuant to the terms of the agreement between the districts, the District owns 46.4% of the permanent facility. The remaining 53.6% is owned by MUD 364. According to the Engineer, the treatment plant contains sufficient capacity to serve approximately 3,417 single family equivalent connections, based on actual flow data. Based on the agreement between the districts, the District’s share of the capacity in the treatment plant is capable of serving 1,811 single family equivalent connections. As of July 31, 2019, the District served approximately 1,658 equivalent single-family connections. Based upon current projections of land usage in the District and MUD 364, the wastewater treatment plant should have sufficient capacity to serve both districts at full development and build-out.

100 Year Flood Plain:

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years.

According to the Engineer, approximately 148 acres of land in the District are located within the 100-year flood plain as shown on the Federal Emergency Management Agency Flood Insurance Rate Map No. 48201C0410M dated October 16, 2013. Such floodplain primarily consists of undevelopable land along Cypress Creek, the detention ponds and drainage channels. However, it also includes portions of Coles Crossing, Sections 8, 23, 24 and 25 and a portion of Broadstone Coles Crossing apartment property. A final determination has not been conducted by the District to verify if the finished floor elevation of each home or apartment within the official flood plain was elevated to a point above the official flood plain elevation.

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose Authorized</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
08/10/96	Water, Sanitary Sewer and Drainage	\$41,200,000	\$19,995,000	\$21,205,000
08/10/96	Refunding	\$24,720,000	\$1,905,363.83*	\$23,624,636.17

* Includes the Bonds.

WATER AND SEWER OPERATIONS

General

The Bonds and the Remaining Outstanding 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 District operations, if any, are available for any legal purpose, including the payment of debt service on the Bonds and the Remaining Outstanding 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 Remaining Outstanding Bonds and the Bonds.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of the District's General Fund for the fiscal years ended August 31, 2015 through August 31, 2018, based upon information obtained from the District's audited financial statements, and an unaudited summary prepared by the District's Bookkeeper for the fiscal year ended August 31, 2019. Reference is made to such records and statements for further and more complete information.

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
	(Unaudited)				
Revenues					
Property Taxes	\$ 933,461	\$ 1,017,938	\$ 991,758	\$ 902,075	\$ 769,473
City of Houston Rebates	179,662	196,334	179,894	198,431	192,558
Water service	325,849	323,455	332,671	332,127	326,469
Sewer Service	277,268	279,601	278,155	275,018	276,352
Regional Water Authority Fees	771,855	759,997	677,038	555,093	492,747
Penalty and interest	15,098	15,044	17,880	14,756	17,583
Tap Connection & Inspection Fees	2,520	2,270	2,670	79,755	30,397
Investment Income	80,242	47,113	18,290	8,450	2,453
Other Income	18,230	20,428	16,317	26,784	-
Total revenues	<u>\$ 2,604,186</u>	<u>\$ 2,662,180</u>	<u>\$ 2,514,673</u>	<u>\$ 2,392,489</u>	<u>\$ 2,108,032</u>
Expenditures					
Purchased Services	\$ 1,532,905	\$ 1,152,242	\$ 1,091,459	\$ 938,482	\$ 906,261
Professional Services	290,832	424,760	208,675	214,379	156,943
Contracted services	238,318	188,636	193,107	185,122	188,616
Utilities	24,979	9,268	3,416	3,769	3,750
Repairs and Maintenance	190,648	269,822	255,960	207,426	191,334
Other Expenditures	128,882	107,387	79,235	75,385	87,052
Tap Connections	-	-	3,900	39,195	13,618
Capital Outlay	83,556	107,912	264,798	-	-
Total expenditures	<u>\$ 2,490,121</u>	<u>\$ 2,260,027</u>	<u>\$ 2,100,550</u>	<u>\$ 1,663,758</u>	<u>\$ 1,547,574</u>
Net Change in Fund Balances	\$ 114,065	\$ 402,153	\$ 414,123	\$ 728,731	\$ 560,458
Interfund Transfers In (Out)	\$ 627,476 (a)	\$ -	\$ (23,141)	\$ 5,067	\$ -
Beginning Fund Balance	<u>\$ 3,985,336</u>	<u>\$ 3,583,183</u>	<u>\$ 3,192,201</u>	<u>\$ 2,458,403</u>	<u>\$ 1,897,945</u>
Ending Fund Balance	<u>\$ 4,726,877 (b)</u>	<u>\$ 3,985,336</u>	<u>\$ 3,583,183</u>	<u>\$ 3,192,201</u>	<u>\$ 2,458,403</u>

(a) Represents funds due from MUD 364 in the amount of \$91,937 for sewer plant improvements and \$535,539 for the water plant expansion.

(b) Unaudited. Provided by the District's Bookkeeper.

FINANCIAL STATEMENT

2019 Taxable Assessed Valuation.....	\$531,395,424 (a)
Gross Direct Debt Outstanding	\$ 6,370,000 (b)
Estimated Overlapping Debt	<u>30,185,919 (c)</u>
Gross Direct Debt and Estimated Overlapping Debt.....	\$36,555,919
Ratio of Gross Direct Debt to:	
2019 Taxable Assessed Valuation	1.20%
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Taxable Assessed Valuation.....	6.88%
Operating Fund Balance as of October 17, 2019.....	\$3,953,565
Debt Service Fund Balance as of October 17, 2019	\$466,644

- (a) The 2019 Taxable Assessed Valuation shown herein includes \$502,174,977 of certified value and \$29,220,447 of uncertified value. The uncertified value represents the landowners' opinion of the value; however, such value is subject to change and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
- (b) After the issuance of the Bonds and excludes the Refunded Bonds. See "Outstanding Bonds" herein.
- (c) See "ESTIMATED OVERLAPPING DEBT STATEMENT."

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

Outstanding Bonds

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

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2010 (a)	\$ 4,080,000	\$ 1,710,000	\$ 1,410,000	\$ 300,000
2011 (a)	5,135,000	2,630,000	1,825,000	805,000
2014 (a)	<u>4,525,000</u>	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>
Total	\$ 13,740,000	\$ 6,340,000	\$ 3,235,000	\$ 3,105,000
The Bonds				<u>3,265,000</u>
The Bonds and Remaining Outstanding Bonds				\$ 6,370,000

(a) 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 (\$3,235,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2020	\$ 1,467,389	\$ 128,708	\$ 30,000	\$ 77,833	\$ 107,833	\$ 1,446,515
2021	1,447,733	438,708	320,000	92,500	412,500	1,421,525
2022	1,428,458	831,308	725,000	82,900	807,900	1,405,050
2023	1,309,708	964,658	875,000	61,150	936,150	1,281,200
2024	919,170	919,170	860,000	34,900	894,900	894,900
2025	488,800	488,800	455,000	9,100	464,100	464,100
Total	\$ 7,061,256	\$ 3,771,350	\$ 3,265,000	\$ 358,383	\$ 3,515,550	\$ 6,913,290

Average Annual Debt Service Requirements (2020-2025)\$1,152,215
 Maximum Annual Debt Service Requirements (2020)\$1,446,515

ESTIMATED OVERLAPPING DEBT STATEMENT

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

Taxing Body	Gross Debt		Percent of Overlapping Gross Debt	Amount of Overlapping Gross Debt
	Amount	As of		
Harris County.....	\$ 1,599,402,125	8/31/2019	0.12%	\$ 1,919,283
Harris County Flood Control District.....	83,075,000	8/31/2019	0.12%	99,690
Harris County Hospital District.....	57,300,000	8/31/2019	0.12%	68,760
Harris County Department of Education.....	6,320,000	8/31/2019	0.12%	7,584
Port of Houston Authority.....	593,754,397	8/31/2019	0.12%	712,505
Cypress-Fairbanks Independent School District.....	2,586,595,000	8/31/2019	1.00%	25,865,950
Lone Star College District.....	581,595,000	8/31/2019	0.26%	1,512,147
Total Estimated Overlapping Debt.....				\$ 30,185,919
The District.....	6,370,000 (a)	Current	100.00%	6,370,000
Total Direct and Estimated Overlapping Debt.....				\$ 36,555,919

Ratio of Gross Direct Debt and Estimated Overlapping Debt to:
 2019 Taxable Assessed Valuation..... 6.88%

(a) The Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes for 2019

	Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority.....	\$ 0.61670
Cypress- Fairbanks Independent School District.....	1.37000
Harris County ESD No. 9.....	0.05980
Lone Star College System.....	<u>0.10780</u>
Total Overlapping Tax Rate.....	\$ 2.15430
The District.....	<u>0.47000 (a)</u>
Total Tax Rate.....	\$ 2.62430

(a) See “TAX DATA—Historical Tax Rate Distribution.”

TAX DATA

Tax Collections

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

Tax Year	Net Certified Taxable Valuation	Tax Rate	Total Tax Levy	Total Collections as of September 30, 2019 (a)	
				Amount	Percent
2014	\$ 452,725,398	\$ 0.495	\$ 2,239,797	\$ 2,239,661	99.99%
2015	490,499,477	0.485	2,378,923	2,375,380	99.85%
2016	508,636,948	0.480	2,441,402	2,437,817	99.85%
2017	517,099,793	0.470	2,430,369	2,423,587	99.72%
2018	515,399,305	0.470	2,421,794	2,412,263	99.61%
2019	502,174,977	0.470	2,360,222	(b)	(b)

(a) Unaudited.

(b) In process of collection.

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. No split payments are allowed, and no discounts are allowed.

Historical Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$ 0.280	\$ 0.285	\$ 0.275	\$ 0.285	\$ 0.300
Maintenance and Operations	0.190	0.185	0.195	0.195	0.185
Total	\$ 0.470	\$ 0.470	\$ 0.470	\$ 0.480	\$ 0.485

Tax Rate Limitations

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

Maintenance and Operations: \$1.50 per \$100 of taxable assessed valuation.

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2019 in the amount of \$0.28 per \$100 of taxable assessed valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. On August 10, 1996, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$1.50 per \$100 of taxable assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds. For the 2019 tax year, the Board levied a maintenance tax in the amount of \$0.19 per \$100 of taxable assessed valuation.

Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, Certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any resident homesteads from taxation. For the 2019 tax year, the District has granted an exemption of \$20,000 of assessed valuation for homesteads of persons 65 years of age or older and for certain disabled persons.

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 Tax Code.

Summary of Assessed Valuation

The following summary of the 2019, 2018, and 2017 Certified Taxable Assessed Valuations is provided by the District's Tax Assessor/Collector based on information contained in the 2019, 2018, and 2017 tax rolls of the District. Differences in values from other information herein are due to differences in dates of information provided.

	2019 Certified Taxable Assessed Valuation	2018 Certified Taxable Assessed Valuation	2017 Certified Taxable Assessed Valuation
Land	\$ 99,090,708	\$ 103,226,064	\$ 103,075,479
Improvements	399,395,383	398,639,808	404,541,532
Personal Property	13,204,368	22,859,486	18,921,013
Exemptions	(9,515,482)	(9,326,053)	(9,438,231)
Total	<u>\$ 502,174,977</u>	<u>\$ 515,399,305</u>	<u>\$ 517,099,793</u>

Principal Taxpayers

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the 2019 certified tax roll, which reflects ownership as of January 1, 2019.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
VR Coles Limited Partnership	Apartments	\$ 36,356,000	7.24%
Freanel & Son Texas LLC (a)	Strip Shopping Center	10,906,671	2.17%
Realty Income Texas Properties LP	Commercial/Fitness Center	7,189,822	1.43%
Quattro Coles LLC	Strip Shopping Center	7,000,000	1.39%
Kamco Holdings Ltd.	Strip Shopping Center	6,632,100	1.32%
Barker Rand LLC	Commercial/Supermarket	6,513,698	1.30%
Barker Crossing CLA	Day Care Center	5,502,628	1.10%
MCI Metro / Access Trans SVC LLC	Telephone Utility	5,176,890	1.03%
DT Group Inc.	Strip Shopping Center	5,077,074	1.01%
Vshad LLC	Commercial/ Restaurant	3,445,458	0.69%
Total		<u>\$ 93,800,341</u>	<u>18.68%</u>

(a) Apartment community.

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed 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 Taxable Assessed Valuation of \$531,395,424 (\$502,174,977 of certified value and \$29,220,447 of uncertified value). The calculations contained in the following table merely 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 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 STATEMENT—Debt Service Requirements.”

Maximum annual debt service requirement (2020)	\$1,446,515
\$0.29 tax rate on the 2019 Taxable Assessed Valuation	\$1,463,994
Average annual debt service requirement (2020-2025)	\$1,152,215
\$0.23 tax rate on the 2019 Taxable Assessed Valuation	\$1,161,099

No representation or suggestion is made that the uncertified portion of the 2019 Taxable Assessed Valuation will not be adjusted downward once certified, and no person should rely upon such amount or its inclusion herein as assurance of its attainment. See “TAX PROCEDURES.”

TAX PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the 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 and for the payment of certain contractual obligations. See “TAX DATA.”

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 Harris County Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”).

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approves it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is

entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who was entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, effective January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, 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%) 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 and Goods-in-Transit Exemptions: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for fewer 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

Harris County may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the City 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 landowner of qualified open-space land is a member of the U.S. armed forces, subject to certain conditions, the appraisal of the land as qualified open-space does not change while the landowner is deployed or stationed outside of Texas. If a claimant receives the agricultural, open space or timberland 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 and/or timberland use and taxes for the previous five (5) years for open space land.

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.

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property.

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

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

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. See "SELECTED FINANCIAL INFORMATION (UNAUDITED)" for a description of the District's current total tax rate. 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 on an annual basis, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification 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 each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See “ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Tax Rates for 2019.” 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 cost of suit and sale, by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. The District’s ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See “INVESTMENT CONSIDERATIONS—Tax Collection Limitations.”

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Texas, Harris 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 and Security 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 and Bankruptcy Limitations” below.

Hurricane Harvey

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced 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 26, 2017, and brought historic levels of rainfall during the successive four days.

According to the Engineer, the District's system did not sustain any material damage from Hurricane Harvey and there was no interruption of water and sewer service during or after the storm. To the knowledge of the District, no taxable improvements within the District experienced structural flooding or other material damage.

If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to 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 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 would be adversely affected.

Specific Flood Type Risks

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

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

Future Debt

The District reserves in the Bond Resolution the right to issue the remaining \$21,205,000 principal amount of unlimited tax bonds for construction of the System which have been authorized at an election held within the District and such additional bonds as may be voted hereafter. The District reserves in the Bond Resolution the right to issue the remaining \$23,624,636.17 of unlimited tax refunding bonds authorized by the voters but unissued following issuance of the Bonds and such additional bonds as may be voted hereafter. The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the TCEQ (in the case of new money bonds only), the Attorney General of Texas and the Board of the District. See "THE BONDS—Issue of Additional Debt."

Tax Collection Limitations

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

Registered Owners' Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, if it fails to make payments into any fund or funds created in the Bond Resolution, or if it 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 TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

A district may not be forced into bankruptcy involuntarily.

Environmental 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’s stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the “Current Permit”) issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District’s inclusion in the MS4 Permit were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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.

Continuing Compliance with Certain Covenants

The Bond Resolution contains covenants by the District intended to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Resolution on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See “TAX MATTERS.”

Marketability

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

Changes in Tax Legislation

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of the Insurer, particularly over the life of the investment. See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the 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 income 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 “THE BONDS,” “THE DISTRICT—General,” “TAX 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 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 interest the Bonds is 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 Bond Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond 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. In addition, the District will 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 Bond 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.

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 a municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. S&P has also assigned an underlying rating of "A+" to the Bonds. An explanation of the rating may be obtained from S&P.

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

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

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

Current Financial Strength Ratings

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On June 27, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

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

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

Capitalization of AGM

At June 30, 2019:

- The policyholders' surplus of AGM was approximately \$2,530 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,082 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,853 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (filed by AGL with the SEC on August 8, 2019).

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

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

Miscellaneous Matters

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

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the funds deposited with the Paying Agent for the Refunded Bonds, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds; (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes; and (c) compliance with the City of Houston Ordinance 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 certain other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from sources other than the District, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

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.

Engineer: The information contained in this Official Statement relating to engineering matters and to the description of the flood protection and in particular that information included in the sections entitled "THE DISTRICT," and "THE SYSTEM" has been provided by Sander Engineering Corporation, Consulting Engineers and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

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

Auditor: The financial statements of the District as of August 31, 2018, 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" for a copy of the District's August 31, 2018, financial statements.

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

Updating 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 of Directors in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in 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

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission (the "SEC") regarding the District's continuing disclosure obligations because the District has less than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. In the Bond Resolution, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of 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 financial information and operating data which is customarily prepared by the District and is publicly available, annually to the MSRB through EMMA. The financial information and operating data which will be provided with respect to the District is found in APPENDIX A (Financial Statements of the District for the fiscal year ended August 31, 2018). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2019. Any information so provided regarding 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 August 31. Accordingly, it must provide updated information by February 28 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Specified Event Notices

The District will provide timely notices of certain 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, 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, 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 the 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 15c2-12 (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 through the EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the 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 Registered 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 Underwriter 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 continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 365 , as of the date shown on the cover page.

/s/ Joe Myers
President, Board of Directors
Harris County Municipal Utility District No. 365

ATTEST:

/s/ Alan Silverman
Secretary, Board of Directors
Harris County Municipal Utility District No. 365

APPENDIX A

Financial Statement of the District for the year ended August 31, 2018

Harris County Municipal Utility District No. 365

Harris County, Texas

Independent Auditor's Report and Financial Statements

August 31, 2018



Harris County Municipal Utility District No. 365
August 31, 2018

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Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 365
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 365 (the District), as of and for the year ended August 31, 2018, 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 August 31, 2018, 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 schedules 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 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
January 14, 2019

Harris County Municipal Utility District No. 365

Management's Discussion and Analysis

August 31, 2018

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.

Harris County Municipal Utility District No. 365
Management's Discussion and Analysis (Continued)
August 31, 2018

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.

Harris County Municipal Utility District No. 365
Management's Discussion and Analysis (Continued)
August 31, 2018

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

	2018	2017
Current and other assets	\$ 5,387,033	\$ 4,828,481
Capital assets	8,384,107	8,625,993
Total assets	13,771,140	13,454,474
Deferred outflows of resources	267,482	310,008
Total assets and deferred outflows of resources	\$ 14,038,622	\$ 13,764,482
Long-term liabilities	\$ 7,601,369	\$ 8,757,509
Other liabilities	675,500	483,114
Total liabilities	8,276,869	9,240,623
Net position:		
Net investment in capital assets	1,050,220	178,492
Restricted	718,086	738,942
Unrestricted	3,993,447	3,606,425
Total net position	\$ 5,761,753	\$ 4,523,859

The total net position of the District increased by \$1,237,894, or about 27 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. 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.

Harris County Municipal Utility District No. 365
Management's Discussion and Analysis (Continued)
August 31, 2018

Summary of Changes in Net Position

	2018	2017
Revenues:		
Property taxes	\$ 2,453,727	\$ 2,449,653
City of Houston rebates	181,037	182,303
Charges for services	2,600,603	2,436,868
Other revenues	111,690	83,251
Total revenues	5,347,057	5,152,075
Expenses:		
Services	3,492,755	3,159,136
Depreciation	297,908	297,907
Debt service	318,500	346,132
Total expenses	4,109,163	3,803,175
Change in net position	1,237,894	1,348,900
Net position, beginning of year	4,523,859	3,174,959
Net position, end of year	\$ 5,761,753	\$ 4,523,859

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended August 31, 2018, were \$4,683,901, an increase of \$379,949 from the prior year.

The general fund's fund balance increased by \$402,153. This increase was primarily due to property taxes, City of Houston (the City) rebates and service revenues exceeding service operations expenditures.

The water plant and wastewater treatment plant funds' fund balances remained the same as all expenditures were billed to the participants.

The debt service fund's fund balance decreased by \$22,204 because bond principal and interest requirements and contracted service expenditures were greater than property tax revenues generated.

Harris County Municipal Utility District No. 365
Management's Discussion and Analysis (Continued)
August 31, 2018

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 regional water fee and investment income revenues and professional fees expenditures being higher than anticipated, as well as water revenue, purchased services and capital outlay expenditures being lower than anticipated. The fund balance as of August 31, 2018, was expected to be \$3,748,611 and the actual end-of-year fund balance was \$3,985,336.

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)

	2018	2017
Land and improvements	\$ 3,242,326	\$ 3,242,326
Construction in progress	72,698	16,676
Water facilities	2,216,765	2,368,239
Wastewater facilities	2,852,318	2,998,752
Total capital assets	\$ 8,384,107	\$ 8,625,993

During the current year, additions to capital assets were as follows:

Construction in progress related to the sewer treatment plant study and expansion	\$ 56,022
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Debt

The changes in the debt position of the District during the fiscal year ended August 31, 2018, are summarized below.

Long-term debt payable, beginning of year	\$ 8,757,509
Decreases in long-term debt	(1,156,140)
Long-term debt payable, end of year	\$ 7,601,369

Harris County Municipal Utility District No. 365
Management's Discussion and Analysis (Continued)
August 31, 2018

At August 31, 2018, the District had \$21,205,000 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.

The District's bonds carry an underlying rating of "A+" by Standard & Poor's. The Series 2011 refunding bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp. and the Series 2014 refunding bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company.

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, 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 without the District's consent, except as set forth below.

Strategic Partnership Agreement

Effective April 9, 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 agreed it will not annex the District as a whole for full purposes for 30 years.

Harris County Municipal Utility District No. 365
Statement of Net Position and Governmental Funds Balance Sheet
August 31, 2018

	General Fund	Water Plant	Wastewater Treatment Plant	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets							
Cash	\$ 1,227,002	\$ 159,451	\$ 100,033	\$ 307,360	\$ 1,793,846	\$ -	\$ 1,793,846
Short-term investments	2,591,286	-	-	203,857	2,795,143	-	2,795,143
Receivables:							
Property taxes	8,111	-	-	12,708	20,819	-	20,819
Service accounts	157,455	-	-	-	157,455	-	157,455
Tax rebates	23,380	-	-	-	23,380	-	23,380
Accrued penalty and interest	-	-	-	-	-	6,813	6,813
Interfund receivable	212,569	200,601	20,272	50	433,492	(433,492)	-
Due from participants	-	314,587	54,233	-	368,820	-	368,820
Due from others	165,668	-	-	-	165,668	-	165,668
Prepaid expenditures	32,520	10,943	11,626	-	55,089	-	55,089
Capital assets (net of accumulated depreciation):							
Land and improvements	-	-	-	-	-	3,242,326	3,242,326
Construction in progress	-	-	-	-	-	72,698	72,698
Infrastructure	-	-	-	-	-	5,069,083	5,069,083
Total assets	4,417,991	685,582	186,164	523,975	5,813,712	7,957,428	13,771,140
Deferred Outflows of Resources							
Deferred amount on debt refundings	0	0	0	0	0	267,482	267,482
Total assets and deferred outflows of resources	\$ 4,417,991	\$ 685,582	\$ 186,164	\$ 523,975	\$ 5,813,712	\$ 8,224,910	\$ 14,038,622

Harris County Municipal Utility District No. 365
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
August 31, 2018

	General Fund	Water Plant	Wastewater Treatment Plant	Debt Service Fund	Total	Adjustments	Statement of Net Position
Liabilities							
Accounts payable	\$ 201,581	\$ 236,613	\$ 43,326	\$ 1,475	\$ 482,995	\$ -	\$ 482,995
Customer deposits	2,040	-	-	-	2,040	-	2,040
Operating deposits	-	144,013	46,452	-	190,465	-	190,465
Interfund payable	220,923	160,943	51,626	-	433,492	(433,492)	-
Long-term liabilities:							
Due within one year	-	-	-	-	-	1,165,000	1,165,000
Due after one year	-	-	-	-	-	6,436,369	6,436,369
Total liabilities	424,544	541,569	141,404	1,475	1,108,992	7,167,877	8,276,869
Deferred Inflows of Resources							
Deferred property tax revenues	8,111	0	0	12,708	20,819	(20,819)	0
Fund Balances/Net Position							
Fund balances:							
Nonspendable, prepaid expenditures	32,520	10,943	11,626	-	55,089	(55,089)	-
Restricted, unlimited tax bonds	-	-	-	509,792	509,792	(509,792)	-
Committed:							
Water production and distribution	-	133,070	-	-	133,070	(133,070)	-
Wastewater collection and treatment	-	-	33,134	-	33,134	(33,134)	-
Assigned to future expenditures	415,185	-	-	-	415,185	(415,185)	-
Unassigned	3,537,631	-	-	-	3,537,631	(3,537,631)	-
Total fund balances	3,985,336	144,013	44,760	509,792	4,683,901	(4,683,901)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 4,417,991	\$ 685,582	\$ 186,164	\$ 523,975	\$ 5,813,712		
Net position:							
Net investment in capital assets						1,050,220	1,050,220
Restricted for plant operations						188,773	188,773
Restricted for debt service						529,313	529,313
Unrestricted						3,993,447	3,993,447
Total net position						\$ 5,761,753	\$ 5,761,753

Harris County Municipal Utility District No. 365
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended August 31, 2018

	General Fund	Water Plant	Wastewater Treatment Plant	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues							
Property taxes	\$ 1,017,938	\$ -	\$ -	\$ 1,435,598	\$ 2,453,536	\$ 191	\$ 2,453,727
City of Houston rebates	196,334	-	-	-	196,334	(15,297)	181,037
Water service	323,455	-	-	-	323,455	-	323,455
Sewer service	279,601	-	-	-	279,601	-	279,601
Regional water fee	759,997	-	-	-	759,997	-	759,997
Bulk water sales	-	1,815,681	-	-	1,815,681	(892,424)	923,257
Bulk sewer sales	-	-	574,111	-	574,111	(259,818)	314,293
Penalty and interest	15,044	-	-	11,718	26,762	1,323	28,085
Tap connection and inspection fees	2,270	-	-	-	2,270	-	2,270
Investment income	47,113	197	92	13,505	60,907	-	60,907
Other income	20,428	-	-	-	20,428	-	20,428
Total revenues	2,662,180	1,815,878	574,203	1,460,821	6,513,082	(1,166,025)	5,347,057
Expenditures/Expenses							
Service operations:							
Purchased services	1,152,242	-	-	-	1,152,242	(1,152,242)	-
Regional water fee	-	1,455,034	-	-	1,455,034	-	1,455,034
Professional fees	424,760	7,104	9,433	6,148	447,445	-	447,445
Contracted services	188,636	23,354	36,146	39,118	287,254	-	287,254
Utilities	9,268	189,814	133,451	-	332,533	-	332,533
Repairs and maintenance	269,822	128,002	366,399	-	764,223	51,890	816,113
Other expenditures	107,387	12,570	28,774	5,645	154,376	-	154,376
Capital outlay	107,912	-	-	-	107,912	(107,912)	-
Depreciation	-	-	-	-	-	297,908	297,908
Debt service:							
Principal retirement	-	-	-	1,140,000	1,140,000	(1,140,000)	-
Interest and fees	-	-	-	292,114	292,114	26,386	318,500
Total expenditures/expenses	2,260,027	1,815,878	574,203	1,483,025	6,133,133	(2,023,970)	4,109,163
Excess (Deficiency) of Revenues							
Over Expenditures	402,153	-	-	(22,204)	379,949	(379,949)	
Change in Net Position						1,237,894	1,237,894
Fund Balances/Net Position							
Beginning of year	3,583,183	144,013	44,760	531,996	4,303,952	-	4,523,859
End of year	\$ 3,985,336	\$ 144,013	\$ 44,760	\$ 509,792	\$ 4,683,901	\$ 0	\$ 5,761,753

Harris County Municipal Utility District No. 365

Notes to Financial Statements

August 31, 2018

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

Harris County Municipal Utility District No. 365 (the District) was created by an order of the Texas Natural Resource Conservation Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective June 26, 1996, in accordance with the Texas Water Code, Chapter 54. 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 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.

Harris County Municipal Utility District No. 365

Notes to Financial Statements

August 31, 2018

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.

The District has two special revenue funds as follows:

Water Plant – Accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is bulk water sales.

Wastewater Treatment Plant – Accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is bulk sewer sales.

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.

Harris County Municipal Utility District No. 365

Notes to Financial Statements

August 31, 2018

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.

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.

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

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.

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

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

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.

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 August 31, 2018, include collections during the current period or within 60 days of year-end related to the 2017 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 August 31, 2018, the 2017 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:

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	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.

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

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.

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 bond premiums and discounts 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.	\$ 8,384,107
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	20,819

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	\$ 6,813
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	267,482
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(7,601,369)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ 1,077,852</u>

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.	\$ 1,617,843
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 depreciation and noncapitalized costs exceeded capital outlay expenditures in the current period.	(241,886)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	1,140,000
Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds.	(13,783)
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 governmental funds.	<u>(26,386)</u>
Change in net position of governmental activities.	<u>\$ 2,475,788</u>

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

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.

At August 31, 2018, 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.

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations.

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

At August 31, 2018, the District had the following investments and maturities:

Type	Maturities in Years				
	Amortized Cost/ Fair Value	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 1,264,765	\$ 1,264,765	\$ -	\$ -	\$ -
Texas CLASS	<u>1,530,378</u>	<u>1,530,378</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 2,795,143</u>	<u>\$ 2,795,143</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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 pools are presented as investments with a maturity of less than one year because they are 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 August 31, 2018, the District's investments in TexPool and Texas CLASS were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at August 31, 2018, as follows:

Carrying value:	
Deposits	\$ 1,793,846
Investments	<u>2,795,143</u>
Total	<u>\$ 4,588,989</u>

Investment Income

Investment income of \$60,907 for the year ended August 31, 2018, consisted of interest income.

Fair Value Measurements

The District has the following recurring fair value measurements as of August 31, 2018:

- Pooled investments of \$1,530,378 are valued at fair value per share of the pool's underlying portfolio.

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

Note 3: Capital Assets

A summary of changes in capital assets for the year ended August 31, 2018, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 3,242,326	\$ -	\$ 3,242,326
Construction in progress	16,676	56,022	72,698
Total capital assets, non-depreciable	<u>3,259,002</u>	<u>56,022</u>	<u>3,315,024</u>
Capital assets, depreciable:			
Water production and distribution facilities	4,751,093	-	4,751,093
Wastewater collection and treatment facilities	5,328,950	-	5,328,950
Total capital assets, depreciable	<u>10,080,043</u>	<u>0</u>	<u>10,080,043</u>
Less accumulated depreciation:			
Water production and distribution facilities	(2,382,854)	(151,474)	(2,534,328)
Wastewater collection and treatment facilities	(2,330,198)	(146,434)	(2,476,632)
Total accumulated depreciation	<u>(4,713,052)</u>	<u>(297,908)</u>	<u>(5,010,960)</u>
Total governmental activities, net	<u>\$ 8,625,993</u>	<u>\$ (241,886)</u>	<u>\$ 8,384,107</u>

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended August 31, 2018, were as follows:

Governmental Activities	Balances, Beginning of Year	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:				
General obligation bonds	\$ 8,645,000	\$ 1,140,000	\$ 7,505,000	\$ 1,165,000
Add premiums on bonds	112,509	16,140	96,369	-
Total governmental activities long-term liabilities	<u>\$ 8,757,509</u>	<u>\$ 1,156,140</u>	<u>\$ 7,601,369</u>	<u>\$ 1,165,000</u>

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

General Obligation Bonds

	Refunding Series 2010	Refunding Series 2011
Amounts outstanding, August 31, 2018	\$1,985,000	\$2,995,000
Interest rates	2.00% to 4.50%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2024	September 1, 2019/2025
Interest payment dates	March 1/ September 1	March 1/ September 1
Callable dates*	September 1, 2018	September 1, 2019
		Refunding Series 2014
Amount outstanding, August 31, 2018		\$2,525,000
Interest rates		2.00% to 3.00%
Maturity dates, serially beginning/ending		September 1, 2019/2023
Interest payment dates		March 1/ September 1
Callable date*		N/A

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

Annual Debt Service Requirements

The District has been paying the amount due September 1 within the fiscal year preceding this due date, and the following schedule has been prepared assuming this practice will be followed in future years.

The schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at August 31, 2018.

Year	Principal	Interest	Total
2019	\$ 1,165,000	\$ 258,838	\$ 1,423,838
2020	1,245,000	222,389	1,467,389
2021	1,265,000	182,732	1,447,732
2022	1,285,000	143,458	1,428,458
2023	1,210,000	99,708	1,309,708
2024-2025	1,335,000	72,970	1,407,970
Total	\$ 7,505,000	\$ 980,095	\$ 8,485,095

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

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	\$ 41,200,000
Bonds sold	19,995,000
Refunding bonds voted	24,720,000
Refunding bond authorization used	1,081,512

Note 5: Significant Bond Resolution and Commission Requirements

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 August 31, 2018, the District levied an ad valorem debt service tax at the rate of \$0.2750 per \$100 of assessed valuation, which resulted in a tax levy of \$1,440,184 on the taxable valuation of \$523,703,028 for the 2017 tax year. The interest and principal requirements paid from the tax revenues were \$1,429,864.

Note 6: Maintenance Taxes

At an election held August 10, 1996, 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 August 31, 2018, the District levied an ad valorem maintenance tax at the rate of \$0.1950 per \$100 of assessed valuation, which resulted in a tax levy of \$1,021,221 on the taxable valuation of \$523,703,028 for the 2017 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 7: Regional Water Authority

The District is within the boundaries of the North Harris County Regional 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 Harris-Galveston Subsidence District, which regulates groundwater withdrawal. As of August 31, 2018, the Authority was billing the District \$3.40 per 1,000 gallons of water pumped from its wells. This amount is subject to future increases.

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

Note 8: Contracts With Other Districts

Effective October 8, 1998, the District and Harris County Municipal Utility District No. 364 (District No. 364) entered into an agreement whereby District No. 364 would purchase capacity in water production, wastewater treatment, and storm water control facilities owned and constructed by the District. This agreement was subsequently amended on April 1, 2000, April 26, 2001, February 21, 2002, and April 23, 2003. On July 1, 2004, the existing agreement and all amendments were replaced with the Coles Crossing Joint Facilities Agreement, amended October 1, 2005, and September 1, 2009.

The agreement provides for the District to hold title to and operate the facilities. Operating costs of the facilities are shared by the districts on a pro rata share basis, based on water consumption.

Effective August 11, 2015, the District and District No. 364 entered into an agreement for the lease of interim water capacity in the Coles Crossing Joint Water Facilities whereby the District leased certain water capacity to District No. 364.

Joint Wastewater Treatment Plant

Operations of the wastewater treatment plant are accounted for in the special revenue fund. Transactions for the current year are summarized as follows.

	The District	District No. 364	Total
Due from participants, beginning of year	\$ 23,906	\$ 43,575	\$ 67,481
Current year billings to participants	259,818	314,293	574,111
Current year collections	(263,452)	(303,635)	(567,087)
Due from participants, end of year	\$ 20,272	\$ 54,233	\$ 74,505

At August 31, 2018, the District owns 46.4 percent of the capacity in the wastewater treatment plant and District No. 364 owns 53.6 percent.

Joint Water Plant

Operations for the water plant are accounted for in the special revenue fund. Transactions for the current year are summarized as follows.

Harris County Municipal Utility District No. 365
Notes to Financial Statements
August 31, 2018

	The District	District No. 364	Total
Due from participants, beginning of year	\$ 163,889	\$ 269,710	\$ 433,599
Current year billings to participants	892,424	923,257	1,815,681
Current year collections	(855,712)	(878,380)	(1,734,092)
Due from participants, end of year	\$ 200,601	\$ 314,587	\$ 515,188

At August 31, 2018, the District owns 56 percent of the capacity in the water plant and District No. 364 owns 44 percent.

The districts have funded a \$379,238 operational reserve for both facilities.

Note 9: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 10: Strategic Partnership Agreement

Effective April 9, 2007, the District and the City entered into a Strategic Partnership Agreement (the Agreement) under which the City annexed a tract of land (the tract) within the boundaries of the District for limited purposes. The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all sales and use tax revenues generated within the boundaries of the tract. As consideration for the sales tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District during the term of the Agreement, which is 30 years. During the current year, the District recorded \$181,037 in sales tax rebate revenue.

Required Supplementary Information

Harris County Municipal Utility District No. 365
Budgetary Comparison Schedule – General Fund
Year Ended August 31, 2018

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 1,000,000	\$ 1,017,938	\$ 17,938
City of Houston rebates	180,000	196,334	16,334
Water service	342,000	323,455	(18,545)
Sewer service	270,400	279,601	9,201
Regional water fee	600,000	759,997	159,997
Penalty and interest	14,000	15,044	1,044
Tap connection and inspection fees	6,000	2,270	(3,730)
Investment income	14,400	47,113	32,713
Other income	25,453	20,428	(5,025)
	<u>2,452,253</u>	<u>2,662,180</u>	<u>209,927</u>
Expenditures			
Service operations:			
Purchased services	1,252,140	1,152,242	99,898
Professional fees	279,000	424,760	(145,760)
Contracted services	192,670	188,636	4,034
Utilities	4,320	9,268	(4,948)
Repairs and maintenance	289,570	269,822	19,748
Other expenditures	119,125	107,387	11,738
Capital outlay	150,000	107,912	42,088
	<u>2,286,825</u>	<u>2,260,027</u>	<u>26,798</u>
Excess of Revenues Over Expenditures	165,428	402,153	236,725
Fund Balance, Beginning of Year	<u>3,583,183</u>	<u>3,583,183</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 3,748,611</u>	<u>\$ 3,985,336</u>	<u>\$ 236,725</u>

Harris County Municipal Utility District No. 365
Budgetary Comparison Schedule – Water Plant
Year Ended August 31, 2018

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Service fees:			
District No. 364	\$ 945,802	\$ 923,257	\$ (22,545)
The District	904,358	892,424	(11,934)
Investment income	-	197	197
	<u>1,850,160</u>	<u>1,815,878</u>	<u>(34,282)</u>
Total revenues			
Expenditures			
Service operations:			
Regional water fee	1,200,000	1,455,034	(255,034)
Professional fees	12,400	7,104	5,296
Contracted services	23,800	23,354	446
Utilities	220,800	189,814	30,986
Repairs and maintenance	380,200	128,002	252,198
Other expenditures	12,960	12,570	390
	<u>1,850,160</u>	<u>1,815,878</u>	<u>34,282</u>
Total expenditures			
Excess of Revenues Over Expenditures	-	-	-
Fund Balance, Beginning of Year	<u>144,013</u>	<u>144,013</u>	-
Fund Balance, End of Year	<u>\$ 144,013</u>	<u>\$ 144,013</u>	<u>\$ 0</u>

Harris County Municipal Utility District No. 365
Budgetary Comparison Schedule – Wastewater Treatment Plant
Year Ended August 31, 2018

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Service fees:			
District No. 364	\$ 422,158	\$ 314,293	\$ (107,865)
The District	347,782	259,818	(87,964)
Investment income	-	92	92
	<u>769,940</u>	<u>574,203</u>	<u>(195,737)</u>
Total revenues			
Expenditures			
Service operations:			
Professional fees	266,240	9,433	256,807
Contracted services	35,860	36,146	(286)
Utilities	126,000	133,451	(7,451)
Repairs and maintenance	310,000	366,399	(56,399)
Other expenditures	31,840	28,774	3,066
	<u>769,940</u>	<u>574,203</u>	<u>195,737</u>
Total expenditures			
Excess of Revenues Over Expenditures	-	-	-
Fund Balance, Beginning of Year	<u>44,760</u>	<u>44,760</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 44,760</u>	<u>\$ 44,760</u>	<u>\$ 0</u>

Harris County Municipal Utility District No. 365
Notes to Required Supplementary Information
August 31, 2018

Budgets and Budgetary Accounting

Annual operating budgets are prepared for the general, water plant and wastewater treatment plant funds by the District's consultants. The budgets reflect resources expected to be received during the current year and expenditures expected to be incurred. The Board of Directors is required to adopt the budgets prior to the start of its fiscal year. The budgets are not a spending limitation (a legally restricted appropriation). The original budgets of the general fund, water plant and the wastewater treatment plant funds were not amended during fiscal 2018.

The District prepares its annual operating budgets on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedules - General Fund, Water Plant and Wastewater Treatment Plant funds present the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Harris County Municipal Utility District No. 365
Other Schedules Included Within This Report
August 31, 2018

(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 12-25
- [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

Harris County Municipal Utility District No. 365

Schedule of Services and Rates

Year Ended August 31, 2018

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 checked="" type="checkbox"/> Security
<input checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input checked="" type="checkbox"/> Other <u>Recycling</u>		

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:	\$ 5.00	10,000	N	\$ 1.00	10,001 to 15,000
				\$ 1.75	15,001 to 25,000
				\$ 2.50	25,001 to 35,000
				\$ 3.50	35,001 to 60,000
				\$ 5.00	60,001 to No Limit
Wastewater:	\$ 14.00	1	Y		
Regional water fee:	\$ 3.40	1	N	\$ 3.40	1 to No Limit

Does the District employ winter averaging for wastewater usage?

Yes No

Total charges per 10,000 gallons usage (including fees):

Water \$ 39.00 Wastewater \$ 14.00

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"	704	703	x1.0	703
1"	423	421	x2.5	1,053
1 1/2"	10	10	x5.0	50
2"	41	41	x8.0	328
3"	-	-	x15.0	-
4"	1	1	x25.0	25
6"	1	1	x50.0	50
8"	1	1	x80.0	80
10"	-	-	x115.0	-
Total water	1,181	1,178		2,289
Total wastewater	1,122	1,119	x1.0	1,119

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

Gallons pumped into the system:	475,229
Gallons billed to customers:	505,126
Water accountability ratio (gallons billed/gallons pumped):	106.29%

*"ESFC" means equivalent single-family connections

Harris County Municipal Utility District No. 365
Schedule of General Fund Expenditures
Year Ended August 31, 2018

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	18,500	
Legal		216,749	
Engineering		189,511	
Financial advisor		-	424,760
		<hr/>	
Purchased Services for Resale			
Bulk water and wastewater service purchases			1,152,242
Regional Water Fee			-
Contracted Services			
Bookkeeping		19,763	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		62,562	
Other contracted services		57,875	140,200
		<hr/>	
Utilities			9,268
Repairs and Maintenance			269,822
Administrative Expenditures			
Directors' fees		24,600	
Office supplies		23,817	
Insurance		10,877	
Other administrative expenditures		48,093	107,387
		<hr/>	
Capital Outlay			
Capitalized assets		56,022	
Expenditures not capitalized		51,890	107,912
		<hr/>	
Tap Connection Expenditures			-
Solid Waste Disposal			48,436
Fire Fighting			-
Parks and Recreation			-
Other Expenditures			-
			<hr/>
Total expenditures		\$	<u><u>2,260,027</u></u>

Harris County Municipal Utility District No. 365
Schedule of Temporary Investments
August 31, 2018

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
TexPool	1.96%	Demand	\$ 1,727	\$ -
TexPool	1.96%	Demand	1,059,181	-
Texas CLASS	2.25%	Demand	<u>1,530,378</u>	<u>-</u>
			2,591,286	0
Debt Service Fund				
TexPool	1.96%	Demand	<u>203,857</u>	<u>-</u>
Totals			<u>\$ 2,795,143</u>	<u>\$ 0</u>

Harris County Municipal Utility District No. 365
Analysis of Taxes Levied and Receivable
Year Ended August 31, 2018

	Maintenance Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 7,945	\$ 12,683
Additions and corrections to prior years' taxes	(3,117)	(4,561)
Adjusted receivable, beginning of year	4,828	8,122
 2017 Original Tax Levy	 995,754	 1,404,269
Additions and corrections	25,467	35,915
Adjusted tax levy	1,021,221	1,440,184
Total to be accounted for	1,026,049	1,448,306
Tax collections: Current year	(1,017,057)	(1,434,311)
Prior years	(881)	(1,287)
Receivable, end of year	\$ 8,111	\$ 12,708
 Receivable, by Years		
2017	\$ 4,164	\$ 5,873
2016	1,568	2,292
2015	1,352	2,192
2014	457	874
2013	449	1,161
2012	90	233
2011	27	70
2004	1	3
2003	3	10
Receivable, end of year	\$ 8,111	\$ 12,708

Harris County Municipal Utility District No. 365
Analysis of Taxes Levied and Receivable (Continued)
Year Ended August 31, 2018

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Property Valuations				
Land	\$ 103,075,479	\$ 100,546,745	\$ 96,864,196	\$ 97,677,600
Improvements	411,059,818	400,468,519	395,434,149	370,120,874
Personal property	18,418,084	21,044,558	19,164,745	17,637,865
Exemptions	<u>(8,850,353)</u>	<u>(11,038,025)</u>	<u>(20,343,808)</u>	<u>(29,768,764)</u>
Total property valuations	<u>\$ 523,703,028</u>	<u>\$ 511,021,797</u>	<u>\$ 491,119,282</u>	<u>\$ 455,667,575</u>
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.2750	\$ 0.2850	\$ 0.3000	\$ 0.3250
Maintenance tax rates*	<u>0.1950</u>	<u>0.1950</u>	<u>0.1850</u>	<u>0.1700</u>
Total tax rates per \$100 valuation	<u>\$ 0.4700</u>	<u>\$ 0.4800</u>	<u>\$ 0.4850</u>	<u>\$ 0.4950</u>
Tax Levy	<u>\$ 2,461,405</u>	<u>\$ 2,452,905</u>	<u>\$ 2,381,930</u>	<u>\$ 2,255,554</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 August 10, 1996

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

Harris County Municipal Utility District No. 365
Schedule of Long-term Debt Service Requirements by Years
August 31, 2018

Due During Fiscal Years Ending August 31	Refunding Series 2010		
	Principal Due September 1	Interest Due March 1, September 1	Total
2019	\$ 275,000	\$ 83,532	\$ 358,532
2020	300,000	71,158	371,158
2021	310,000	57,657	367,657
2022	325,000	45,258	370,258
2023	390,000	32,258	422,258
2024	385,000	16,170	401,170
Totals	\$ 1,985,000	\$ 306,033	\$ 2,291,033

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

Harris County Municipal Utility District No. 365
Schedule of Long-term Debt Service Requirements by Years (Continued)
August 31, 2018

Due During Fiscal Years Ending August 31	Refunding Series 2011		
	Principal Due September 1	Interest Due March 1, September 1	Total
2019	\$ 365,000	\$ 107,656	\$ 472,656
2020	405,000	96,706	501,706
2021	400,000	84,050	484,050
2022	390,000	71,050	461,050
2023	485,000	57,400	542,400
2024	480,000	38,000	518,000
2025	470,000	18,800	488,800
Totals	\$ 2,995,000	\$ 473,662	\$ 3,468,662

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

Harris County Municipal Utility District No. 365
Schedule of Long-term Debt Service Requirements by Years (Continued)
August 31, 2018

Due During Fiscal Years Ending August 31	Refunding Series 2014		
	Principal Due September 1	Interest Due March 1, September 1	Total
2019	\$ 525,000	\$ 67,650	\$ 592,650
2020	540,000	54,525	594,525
2021	555,000	41,025	596,025
2022	570,000	27,150	597,150
2023	335,000	10,050	345,050
Totals	\$ 2,525,000	\$ 200,400	\$ 2,725,400

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

Harris County Municipal Utility District No. 365
Schedule of Long-term Debt Service Requirements by Years (Continued)
August 31, 2018

Due During Fiscal Years Ending August 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 1,165,000	\$ 258,838	\$ 1,423,838
2020	1,245,000	222,389	1,467,389
2021	1,265,000	182,732	1,447,732
2022	1,285,000	143,458	1,428,458
2023	1,210,000	99,708	1,309,708
2024	865,000	54,170	919,170
2025	470,000	18,800	488,800
Totals	<u>\$ 7,505,000</u>	<u>\$ 980,095</u>	<u>\$ 8,485,095</u>

Harris County Municipal Utility District No. 365
Changes in Long-term Bonded Debt
Year Ended August 31, 2018

	Bond Issues			Totals
	Refunding Series 2010	Refunding Series 2011	Refunding Series 2014	
Interest rates	2.00% to 4.50%	2.00% to 4.00%	2.00% to 3.00%	
Dates interest payable	March 1/ September 1	March 1/ September 1	March 1/ September 1	
Maturity dates	September 1, 2019/2024	September 1, 2019/2025	September 1, 2019/2023	
Bonds outstanding, beginning of current year	\$ 2,240,000	\$ 3,365,000	\$ 3,040,000	\$ 8,645,000
Retirements, principal	<u>255,000</u>	<u>370,000</u>	<u>515,000</u>	<u>1,140,000</u>
Bonds outstanding, end of current year	<u>\$ 1,985,000</u>	<u>\$ 2,995,000</u>	<u>\$ 2,525,000</u>	<u>\$ 7,505,000</u>
Interest paid during current year	<u>\$ 95,008</u>	<u>\$ 116,906</u>	<u>\$ 77,950</u>	<u>\$ 289,864</u>

Paying agent's name and address:

Series 2010 - 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 2014 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 41,200,000	0	\$ 24,720,000
Amount issued	\$ 19,995,000	0	\$ 1,081,512
Remaining to be issued	<u>\$ 21,205,000</u>	<u>0</u>	<u>\$ 23,638,488</u>

Debt service fund cash and temporary investment balances as of August 31, 2018: \$ 511,217

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,212,156

Harris County Municipal Utility District No. 365
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended August 31,

	Amounts				
	2018	2017	2016	2015	2014
General Fund					
Revenues					
Property taxes	\$ 1,017,938	\$ 991,758	\$ 902,075	\$ 769,473	\$ 582,392
City of Houston rebates	196,334	179,894	198,431	192,558	197,860
Water service	323,455	332,671	332,127	326,469	342,856
Sewer service	279,601	278,155	275,018	276,352	278,259
Regional water fee	759,997	677,038	555,093	492,747	474,096
Penalty and interest	15,044	17,880	14,756	17,583	25,158
Tap connection and inspection fees	2,270	2,670	79,755	30,397	3,079
Investment income	47,113	18,290	8,450	2,453	3,152
Other income	20,428	16,317	26,784	-	46,128
Total revenues	<u>2,662,180</u>	<u>2,514,673</u>	<u>2,392,489</u>	<u>2,108,032</u>	<u>1,952,980</u>
Expenditures					
Service operations:					
Purchased services	1,152,242	1,091,459	938,482	906,261	917,664
Professional fees	424,760	208,675	214,379	156,943	164,803
Contracted services	188,636	193,107	185,122	188,616	184,514
Utilities	9,268	3,416	3,769	3,750	3,028
Repairs and maintenance	269,822	255,960	207,426	191,334	239,928
Other expenditures	107,387	79,235	75,385	87,052	73,061
Tap connections	-	3,900	39,195	13,618	6,205
Capital outlay	107,912	264,798	-	-	100,665
Total expenditures	<u>2,260,027</u>	<u>2,100,550</u>	<u>1,663,758</u>	<u>1,547,574</u>	<u>1,689,868</u>
Excess of Revenues Over Expenditures	402,153	414,123	728,731	560,458	263,112
Other Financing Sources (Uses)					
Interfund transfers in (out)	-	(23,141)	5,067	-	10,141
Excess of Revenues and Transfers In Over Expenditures and Transfers Out	402,153	390,982	733,798	560,458	273,253
Fund Balance, Beginning of Year	<u>3,583,183</u>	<u>3,192,201</u>	<u>2,458,403</u>	<u>1,897,945</u>	<u>1,624,692</u>
Fund Balance, End of Year	<u>\$ 3,985,336</u>	<u>\$ 3,583,183</u>	<u>\$ 3,192,201</u>	<u>\$ 2,458,403</u>	<u>\$ 1,897,945</u>
Total Active Retail Water Connections	<u>1,178</u>	<u>1,178</u>	<u>1,178</u>	<u>1,174</u>	<u>1,173</u>
Total Active Retail Wastewater Connections	<u>1,119</u>	<u>1,118</u>	<u>1,116</u>	<u>1,115</u>	<u>1,112</u>

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
38.2 %	39.4 %	37.7 %	36.5 %	29.8 %
7.4	7.2	8.3	9.1	10.1
12.1	13.2	13.9	15.5	17.5
10.5	11.1	11.5	13.1	14.2
28.5	26.9	23.2	23.4	24.3
0.6	0.7	0.6	0.8	1.3
0.1	0.1	3.3	1.5	0.2
1.8	0.7	0.4	0.1	0.2
0.8	0.7	1.1	-	2.4
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
43.3	43.4	39.2	43.0	47.0
16.0	8.3	9.0	7.4	8.4
7.1	7.7	7.7	9.0	9.4
0.3	0.1	0.2	0.2	0.2
10.1	10.2	8.7	9.1	12.3
4.0	3.1	3.1	4.1	3.7
-	0.2	1.6	0.6	0.3
4.1	10.5	-	-	5.2
<u>84.9</u>	<u>83.5</u>	<u>69.5</u>	<u>73.4</u>	<u>86.5</u>
<u>15.1 %</u>	<u>16.5 %</u>	<u>30.5 %</u>	<u>26.6 %</u>	<u>13.5 %</u>

Harris County Municipal Utility District No. 365
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended August 31,

	Amounts				
	2018	2017	2016	2015	2014
Debt Service Fund					
Revenues					
Property taxes	\$ 1,435,598	\$ 1,449,659	\$ 1,461,520	\$ 1,469,397	\$ 1,506,196
Penalty and interest	11,718	18,759	20,983	7,974	17,258
Investment income	13,505	6,787	3,190	941	892
Total revenues	<u>1,460,821</u>	<u>1,475,205</u>	<u>1,485,693</u>	<u>1,478,312</u>	<u>1,524,346</u>
Expenditures					
Current:					
Professional fees	6,148	6,247	6,484	1,689	1,722
Contracted services	39,118	38,851	38,708	37,927	35,536
Other expenditures	5,645	3,316	2,954	3,567	2,585
Debt service:					
Principal retirement	1,140,000	1,130,000	1,065,000	1,050,000	990,000
Interest and fees	292,114	320,564	346,139	369,689	403,812
Debt issuance costs	-	-	-	-	154,022
Debt defeasance	-	-	-	-	74,000
Total expenditures	<u>1,483,025</u>	<u>1,498,978</u>	<u>1,459,285</u>	<u>1,462,872</u>	<u>1,661,677</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(22,204)</u>	<u>(23,773)</u>	<u>26,408</u>	<u>15,440</u>	<u>(137,331)</u>
Other Financing Sources (Uses)					
Payments to escrow agent	-	-	-	-	(4,527,357)
General obligation bonds issued	-	-	-	-	4,525,000
Premium on debt issued	-	-	-	-	159,558
Total other financing sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>157,201</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(22,204)</u>	<u>(23,773)</u>	<u>26,408</u>	<u>15,440</u>	<u>19,870</u>
Fund Balance, Beginning of Year	<u>531,996</u>	<u>555,769</u>	<u>529,361</u>	<u>513,921</u>	<u>494,051</u>
Fund Balance, End of Year	<u>\$ 509,792</u>	<u>\$ 531,996</u>	<u>\$ 555,769</u>	<u>\$ 529,361</u>	<u>\$ 513,921</u>

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
98.3 %	98.3 %	98.4 %	99.4 %	98.8 %
0.8	1.2	1.4	0.5	1.1
0.9	0.5	0.2	0.1	0.1
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.4	0.4	0.4	0.1	0.1
2.7	2.6	2.6	2.6	2.3
0.4	0.2	0.2	0.2	0.2
78.0	76.6	71.7	71.0	64.9
20.0	21.8	23.3	25.0	26.5
-	-	-	-	10.1
-	-	-	-	4.9
<u>101.5</u>	<u>101.6</u>	<u>98.2</u>	<u>98.9</u>	<u>109.0</u>
<u>(1.5) %</u>	<u>(1.6) %</u>	<u>1.8 %</u>	<u>1.1 %</u>	<u>(9.0) %</u>

Harris County Municipal Utility District No. 365
Board Members, Key Personnel and Consultants
Year Ended August 31, 2018

Complete District mailing address:	Harris County Municipal Utility District No. 365 c/o 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):		May 17, 2018
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
Joe Myers	Elected 05/16- 05/20	\$ 4,350	\$ 2,399	President
Gregory Coleman	Elected 05/18- 05/22	2,250	559	Vice President
Alan Silverman	Elected 05/16- 05/20	3,900	2,008	Secretary
Angela Small	Appointed 09/17- 05/20	4,950	2,502	Assistant Vice President
Jeff McClellan	Elected 05/18- 05/22	4,800	1,946	Assistant Secretary
Megan Bradley	Elected 05/14- 05/18	4,350	1,046	Term Expired

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

Harris County Municipal Utility District No. 365
Board Members, Key Personnel and Consultants (Continued)
Year Ended August 31, 2018

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	07/28/03	\$ 224,098	Attorney
BKD, LLP	07/16/98	22,900	Auditor
Harris County Appraisal District	Legislative Action	18,195	Appraiser
Bob Leared	06/04/97	25,526	Tax Assessor/ Collector
Masterson Advisors LLC	05/17/18	0	Financial Advisor
McLennan & Associates, LP	03/18/04	40,502	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	06/01/97	6,148	Tax Attorney
Sander Engineering Corporation	03/13/08	391,520	Engineer
Si Environmental, LLC	07/01/12	582,446	Operator
Investment Officer			
Jorge Diaz	01/19/17	N/A	Bookkeeper

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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