

OFFICIAL STATEMENT DATED APRIL 8, 2020

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION, AND THE BONDS ARE NOT SPECIFIED PRIVATE ACTIVITY BONDS. SEE “LEGAL MATTERS” AND “TAX MATTERS” HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE BEEN DESIGNATED “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “LEGAL MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS.”

NEW ISSUE-Book-Entry-Only

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

\$3,690,000

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23

(A political subdivision of the State of Texas located within Harris County)

WATERWORKS AND SEWER SYSTEM COMBINATION

UNLIMITED TAX AND REVENUE BONDS

SERIES 2020

Dated: May 1, 2020

Due: October 1, as shown below

Interest on the above-described (the “Bonds”) will accrue from May 1, 2020 and will be payable on April 1 and October 1 of each year commencing October 1, 2020 (five months of interest) and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry-Only System” herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas. See “THE BONDS—Paying Agent/Registrar.”



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

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (Oct. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (Oct. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2030	\$ 250,000	(a) 2.000 %	2.100 %	667906 HQ7	2034	\$ 260,000	(a) 2.375 %	2.600 %	667906 HU8
2031	250,000	(a) 2.000	2.250	667906 HR5	2035	260,000	(a) 2.500	2.700	667906 HV6
2032	255,000	(a) 2.250	2.400	667906 HS3	2036	260,000	(a) 2.500	2.750	667906 HW4
2033	255,000	(a) 2.250	2.500	667906 HT1					

\$800,000 Term Bonds due October 1, 2039 (a), 667906 HZ7 (b), 3.000% Interest Rate, 2.650% Yield (c)
\$1,100,000 Term Bonds due October 1, 2043 (a), 667906 JD4 (b), 3.000% Interest Rate, 2.700% Yield (c)

- The Bonds are subject to redemption prior to maturity at the option of the District, in whole or from time to time, in part on October 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”
- CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services managed by Standard & Poor’s Financial Services LLC on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- Initial reoffering yield represents the initial offering yield to the public which has been established by the Initial Purchaser for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. Accrued interest from May 1, 2020, is to be added to the price.

The Bonds described above (the “Bonds”), when issued, will constitute valid and legally binding obligations of Northwest Harris County Municipal Utility District No. 23 (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 taxable property located within the District, and are further payable from and secured by a pledge of and lien on certain Net Revenues (as defined in the Bond Order) of the District’s waterworks and sewer system. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, Texas or any entity other than the District. The Bonds are subject to special investment risks described herein. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Strawn & Richardson, P.C., Bellaire, Texas, Bond Counsel. Delivery of the Bonds through DTC is expected on or about May 13, 2020.

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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, resolutions, 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 Strawn & Richardson, P.C., 6750 West Loop South, Suite 865, Bellaire, Texas 77401, upon payment of the costs of duplication.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE FINANCING

- The IssuerNorthwest Harris County Municipal Utility District No. 23 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”
- The Issue\$3,690,000 Northwest Harris County Municipal Utility District No. 23 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2020, (the “Bonds”) are dated May 1, 2020. Interest accrues from May 1, 2020 at the rates per annum set forth on the cover page hereof, and is payable on October 1, 2020 (five months of interest) and each April 1 and October 1 thereafter until the earlier of the stated maturity or redemption. The Bonds mature serially on October 1 in each year from 2030 through 2036, both inclusive, and as term bonds on October 1 in each of the years 2039 and 2043 (the “Term Bonds”) in the principal amounts set forth on the cover page hereof. The Bonds are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on October 1, 2025 or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. If fewer than all the Bonds are redeemed, the particular maturities of Bonds to be redeemed shall be selected by the District. If fewer than all the Bonds of any maturity are redeemed at any one time, the particular Bonds to be redeemed within a maturity shall be selected by the Paying Agent/Registrar (defined herein) (or by DTC while the Bonds are in Book-Entry-Only form) by lot or other customary method of random selection. See “THE BONDS.”
- Source of PaymentThe Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District and are further payable from and secured by a pledge of and lien on certain Net Revenues (as defined in the Bond Order) of the District’s waterworks and sewer system (the “System”), to the extent and upon the conditions described herein. The System is not expected to produce sufficient Net Revenues to make any contribution to future debt service payments. See “THE BONDS—Source of Payment.”
- Use of ProceedsProceeds of the Bonds will be used to finance the construction and engineering costs associated with (i) water, sanitary sewer and drainage facilities to serve Silver Springs, Section 2, (ii) Water Plant No. 1 additional booster pump, (iii) 12-inch waterline (Richey Road to Walters Road), (iv) Lift Station Nos. 2 and 3 electrical rehabilitation and (v) wastewater treatment capacity for Silver Springs, Section 2. Bond proceeds also will be used to capitalize twelve (12) months of interest on the Bonds and to pay certain costs associated with the issuance of the Bonds. See “THE SYSTEM—Use and Distribution of Bond Proceeds.”
- Payment RecordThe District has previously issued ten series of waterworks and sewer system combination unlimited tax and revenue bonds (including four series of refunding bonds), of which an aggregate principal amount of \$6,940,000 is outstanding as of March 1, 2020. The previously issued and outstanding bonds are referred to collectively herein as the “Outstanding Bonds.” The District has never defaulted in the timely payment of debt service on its previously issued bonds. See “FINANCIAL STATEMENT—Outstanding Bonds.”
- Qualified Tax-Exempt ObligationsIn the Bond Order the District states that it has designated the Bonds to be “qualified tax-exempt obligations,” and the District represents that it has or will take such action as it deems necessary for the Bonds to constitute “qualified tax-exempt obligations.” See “LEGAL MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions.”

Municipal Bond Rating and Municipal Bond Insurance	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 Build America Mutual Assurance Company (“BAM” or the “Insurer”). The Bonds are rated “A3” by Moody’s Investors Service, Inc. (Moody’s) without regard to credit enhancement. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” and “APPENDIX B.”
Book-Entry-Only System	The definitive bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry-Only System.”
Legal Opinion	Strawn & Richardson, P.C., Bond Counsel, Bellaire, Texas.
Disclosure Counsel	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
Financial Advisor	Masterson Advisors LLC, Houston, Texas.
Paying Agent/Registrar	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

THE DISTRICT

Description	Northwest Harris County Municipal Utility District No. 23 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. The District was created by order of the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the “TCEQ”) on July 3, 1979 and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 459 acres of land. See “THE DISTRICT—General.”
Location	The District is located approximately 16 miles northwest of the central downtown business district of the City of Houston and approximately five miles west of the intersection of Farm-to-Market 1960 and Interstate Highway 45. The District is southeast of the intersection of Bammel-North Houston Road and Veterans Memorial Drive. The District lies wholly within the boundaries of the Spring Independent School District and is within the exclusive extraterritorial jurisdiction of the City of Houston. See “THE DISTRICT—Description and Location” and “AERIAL LOCATION MAP.”
Infectious Disease Outlook (COVID-19)	The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. As described herein under “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19)”, federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 to address the potential impact of COVID-19 upon the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition. See "INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19)."

Tropical Weather Events;
Hurricane Harvey

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

The greater Houston area, including the District, 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 District's Operator, the District's water and sewer system did not sustain any material damage and there was no interruption of water and sewer service. Further, according to the District's Operator, after investigation, although the District experienced street flooding, there was no apparent material wind or water damage to homes or commercial improvements within the District.

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

Status of Development.....

Construction of taxable improvements in the District began in 1979. The District has been developed as the residential subdivisions of Sableridge, Section One, a portion of Sableridge, Section Two (remainder in neighboring Northwest Harris County Municipal Utility District No. 22), Sablechase, Sections One, Two, Three and Four, and Silver Springs, Sections 1 and 2 (collectively, 1,173 lots and 154 duplex units on approximately 231 acres) for a total of 1,327 lots and duplexes. As of February 12, 2020, the District contained 1,243 completed and occupied homes (including 154 duplex units), 28 completed and unoccupied homes and 56 vacant developed lots for a total of 1,327 homes and duplexes. Based on the 2019 tax roll, the average home value in the District is approximately \$113,686.

In addition to the residential development in the District, there are approximately 10 commercial connections in the District built upon approximately 16 acres. Commercial improvements include two shopping centers containing various retail and service establishments, a La Moreliana Market, a Sonic fast food restaurant, a Valero gas station, a car wash, a Diamond Food Mart, a Circle K convenience store/gas station, and a Public Storage facility. An 18-unit multi-family structure has also been constructed on approximately 2 acres within the District. In addition, an apartment complex (80 units) development, including a convenience store and gas station, has been constructed on approximately 6 acres.

A Spring Independent School District elementary school and middle school, which are not subject to taxation, has been constructed on approximately 35 acres of land in the District. Spring Independent School District owns an additional approximately 60 acres of land in the District. Additionally, the District contains approximately 28 acres of undeveloped but developable land and approximately 81 acres of undevelopable land consisting of right-of-way, plant sites, drainage ponds, and easements. The undeveloped land is owned by various landowners, and the District is not aware of any current plans for development. See “THE DISTRICT—Status of Development.”

The Developer.....Recent single-family development in the District has been conducted by Silver Springs, Ltd. (“Silver Springs, Ltd.” or the “Developer”), a Texas limited partnership. Silver Springs, Ltd. has developed Silver Springs, Section 2. Silver Springs, Ltd. owns approximately 22 acres of undeveloped land in the District. See “THE DEVELOPER.”

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

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SELECTED FINANCIAL INFORMATION

2019 Certified Taxable Assessed Valuation.....	\$163,624,579 (a)
Estimate of Taxable Assessed Valuation as of January 1, 2020.....	\$164,816,483 (b)
 Gross Direct Debt Outstanding (after issuance of the Bonds).....	 \$10,630,000
Estimated Overlapping Debt	<u>9,199,066</u> (c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$19,829,066
 Ratios of Gross Direct Debt to:	
2019 Certified Taxable Assessed Valuation	6.50%
Estimate of Taxable Assessed Valuation as of January 1, 2020.....	6.45%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Certified Taxable Assessed Valuation	12.12%
Estimate of Taxable Assessed Valuation as of January 1, 2020.....	12.03%
 2019 District Tax Rate	
Debt Service	\$0.39
Maintenance and Operations	<u>0.37</u>
Total.....	\$0.76/\$100 A.V.
 Average percentage of total tax collections (2015-2019)	 97.29%
 Maximum Debt Service Requirement (2028) of the	
Outstanding Bonds and the Bonds (“Maximum Requirement”)	\$662,181
 Tax rate required to pay Maximum Requirement based upon	
2019 Certified Taxable Assessed Valuation at 95% collections.....	\$0.43/\$100 A.V.
Estimate of Taxable Assessed Valuation as of January 1, 2020 at 95% collections.....	\$0.43/\$100 A.V.
 Average Annual Debt Service Requirement (2020-2043) of the	
Outstanding Bonds and the Bonds (“Average Annual Requirement”).....	\$622,557
 Tax rate required to pay Average Annual Requirement based upon	
2019 Certified Taxable Assessed Valuation at 95% collections	\$0.41/\$100 A.V.
Estimate of Taxable Assessed Valuation as of January 1, 2020 at 95% collections	\$0.40/\$100 A.V.
 Water Connections as of February 12, 2020:	
Homes (Completed and Occupied)	1,054
Unoccupied Homes	28
Vacant Developed Lots.....	56
Commercial.....	10
School	2
Multi Family (18 units).....	2
Duplex (154 units)	154
Other (irrigation).....	9
 Estimated 2020 Population	 4,033 (d)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable appraised value within the District on January 1, 2020. No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. See “TAX PROCEDURES.”
- (c) See “ESTIMATED OVERLAPPING DEBT AND TAX RATES.”
- (d) Based upon 3.5 persons per occupied residence and 2.0 persons per multifamily dwelling.

OFFICIAL STATEMENT

\$3,690,000

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 23

(A political subdivision of the State of Texas located within Harris County)

WATERWORKS AND SEWER SYSTEM COMBINATION UNLIMITED TAX AND REVENUE BONDS SERIES 2020

This Official Statement provides certain information in connection with the issuance by Northwest Harris County Municipal Utility District No. 23 (the “District”) of its \$3,690,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, an order of the Texas Commission on Environmental Quality (the “Commission” or the “TCEQ”) and an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”).

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District and the Developer in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Strawn & Richardson, P.C., Bond Counsel for the District, 6750 West Loop South, Suite 865, Bellaire, Texas 77401 upon payment of the costs of duplication.

THE BONDS

Description

The Bonds will be dated and accrue interest from May 1, 2020, with interest payable on each April 1 and October 1, at the rates specified on the cover hereof, beginning October 1, 2020 (each an “Interest Payment Date”), and will mature on the dates and in the amounts shown on the cover page hereof. The Bonds will be initially registered and delivered only to The Depository Trust Company, New York, New York (“DTC”) in its nominee name of Cede & Co., pursuant to the book-entry system described herein. See “THE BONDS—Book-Entry-Only System.”

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor takes any responsibility for the accuracy or completeness thereof.

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

DTC 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, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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 (hereinafter defined), on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/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, printed certificates for the Bonds are required to be printed and delivered.

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

Method of Payment of Principal and Interest

In the Bond Order, the Board has appointed The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas as the initial Paying Agent/Registrar (the "Paying Agent/Registrar," "Paying Agent," or "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 March 15 or September 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 Order.

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 an annual ad valorem tax, without legal limit as to rate or amount, upon all taxable property in the District sufficient to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds.

The Bonds are further payable from and secured by a pledge of and lien on certain Net Revenues, if any, of the District's water and sewer system (the "System"). Net Revenues are defined by the Bond Order as all income that is derived from the ownership and operation of the District's System as the same is purchased, constructed or otherwise acquired, which remains after deducting the operation and maintenance expenses of the System, but not including income derived from contracts that are pledged for payment of any special project bonds that may be issued. It is not expected that the Net Revenues will ever be sufficient to contribute to debt service payments.

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

Accrued interest on the Bonds and twelve (12) months of capitalized interest shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Construction Fund, to be used as described under "THE SYSTEM—Use and Distribution of Bond Proceeds." Any monies remaining in the Construction Fund after completion of construction of the entire system (as herein defined) will be used as described in the Bond Order or ultimately transferred to 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 Order 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

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on October 1, 2025, or any date thereafter, at a price of par 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 maturities of the Bonds to be redeemed will be selected by the District. If fewer than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Mandatory Redemption: The Bonds due on October 1 in the years 2039 and 2043 (the “Term Bonds”) also are subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on October 1 in the years (“Mandatory Redemption Dates”) and in the amounts set forth below, subject to proportionate reduction as described below, at a redemption price of par plus accrued interest to the date of redemption:

\$800,000 Term Bonds		\$1,100,000 Term Bonds	
Due October 1, 2039		Due October 1, 2043	
Mandatory	Principal	Mandatory	Principal
Redemption Date	Amount	Redemption Date	Amount
2037	\$ 260,000	2040	\$ 275,000
2038	270,000	2041	275,000
2039 (maturity)	270,000	2042	275,000
		2043 (maturity)	275,000

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

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

Authority for Issuance

At elections held on September 22, 1979, June 6, 1981 and November 6, 2001 (the “Elections”), voters of the District authorized the issuance of \$31,000,000 of unlimited tax and revenue bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. After the issuance of the Bonds, the District will have \$13,365,000 authorized but unissued authority remaining from the Elections. See “Issuance of Additional Debt” below.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, the general laws of the State of Texas including the Texas Constitution, Chapters 49 and 54, Texas Water Code, as amended, an order of the Commission and the Elections.

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

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the register at its principal payment office in Dallas, Texas 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 Order. While the Bonds are in the Book-Entry-Only system, the Bonds will be registered in the name of Cede & Co. and will not be transferred. See "Book-Entry-Only System."

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of \$31,000,000 unlimited tax and revenue bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, and could authorize additional amounts. After the issuance of the Bonds, the District will have \$13,365,000 unlimited tax and revenue bonds authorized but unissued for said improvements and facilities.

At a bond election held within the District on May 18, 1991, the voters of the District authorized the issuance of \$9,750,000 of unlimited tax and revenue refunding bonds for the purpose of refunding outstanding bonds. The District currently has \$2,940,000 of unlimited tax and revenue refunding bonds authorized but unissued. The District may issue additional refunding bonds without voter approval.

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

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

Pursuant to Chapter 54 of the Texas Water Code, a municipal utility district may petition the Commission 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 Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for road powers 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 exclusive extraterritorial jurisdiction of the City of Houston, the District may be annexed by the City of Houston without the District's consent, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City of Houston hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever attempt to annex the District for full purposes and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Strategic Partnership

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which the services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District. Although the City has negotiated and entered into such an agreement with one or more other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District, although no representation can be made regarding the future likelihood of an agreement or the terms thereof.

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater systems of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation.

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies also may not be available. 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 Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct 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 Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be the same investment quality as those currently permitted under Texas law.

THE DISTRICT

General

The District is a conservation and reclamation district created by order of the Texas Water Commission, predecessor to the TCEQ on July 3, 1979, and operates under provisions of Chapters 49 and 54 of the Texas Water Code and other general laws of the State of Texas applicable to municipal utility districts.

The District is a political subdivision of the State of Texas and 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” herein.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City of Houston, within whose extraterritorial jurisdiction boundaries the District lies, the District is required to observe certain requirements of the City of Houston which: limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, parks and recreational facilities, and firefighting facilities; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City and recorded in the real property records. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See “THE SYSTEM—Regulation.”

Description and Location

The District is comprised of approximately 459 acres of land located approximately 16 miles northwest of the central downtown business district of the City of Houston and approximately five miles west of the intersection of Farm-to-Market 1960 and Interstate Highway 45. The District is southeast of the intersection of Bammel-North Houston Road and Veterans Memorial Drive. Portions of the property in the District front on Veterans Memorial Drive. The District is located entirely within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Spring Independent School District.

Land in the District is located above, but does not include, the Bammel Storage Unit, an underground natural gas storage reservoir.

Status of Development

Construction of taxable improvements in the District began in 1979. The District has been developed as the residential subdivisions of Sableridge, Section One, a portion of Sableridge, Section Two (remainder in neighboring District), Sablechase, Sections One, Two, Three and Four, and Silver Springs, Section 1 and 2 (collectively, 1,173 lots and 154 duplex units on approximately 231 acres) for a total of 1,327 lots and duplexes. As of February 12, 2020, the District contained 1,243 completed and occupied homes (including 154 duplex units), 28 completed and unoccupied homes and 56 vacant developed lots for a total of 1,327 homes and duplexes. Based on the 2019 tax roll, the average home value in the District is approximately \$113,686.

In addition to the residential development in the District, there are approximately 10 commercial connections in the District built upon approximately 16 acres. Commercial improvements include two shopping centers containing various retail and service establishments, a La Moreliana Market, a Sonic fast food restaurant, a Valero gas station, a car wash, a Diamond Food Mart, a Circle K convenience store/gas station, and a Public Storage facility. An 18-unit multi-family structure has also been constructed on approximately 2 acres within the District. In addition, an apartment complex (80 units) development, including a convenience store and gas station, is has been constructed on approximately 6 acres.

A Spring Independent School District elementary school and middle school, which are not subject to taxation, has been constructed on approximately 35 acres of land in the District. Spring Independent School District owns an additional approximately 60 acres of land in the District. Additionally, the District contains approximately 28 acres of undeveloped but developable land and approximately 81 acres of undevelopable land consisting of right-of-way, plant sites, drainage ponds, and easements. The undeveloped land is owned by various landowners, and the District is not aware of any current plans for development other than those mentioned previously.

MANAGEMENT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and director elections are held in November in even numbered years only. All of the directors below either reside or own land within the District. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
B.A. (Barbara) Benson	President	November 2022
Victoria Hawkins	First Vice President	November 2022
Lenora Flores	Second Vice President	November 2022
Earlinda Trujillo	Secretary	November 2020
Dan R. Young	Assistant Secretary	November 2020

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

Tax Assessor/Collector

Land and improvements within the District were appraised for ad valorem taxation purposes by the 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.

System Operator

The District contracts with Hays Utility South Corporation ("Hays") for maintenance and operation of the District's System.

Bookkeeper

The District contracts with Myrtle Cruz, Inc. for bookkeeping services.

Engineer

The consulting engineer for the District in connection with the review of design and construction of the District's facilities is JNS Engineers, LLC ("Engineer").

Financial Advisor

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

Attorney

The District has engaged Strawn & Richardson, P.C. 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.

Disclosure Counsel

The District has engaged McCall, Parkhurst & Horton, L.L.P. as disclosure counsel. The fees paid to disclosure counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which audit is filed with the Commission. The District's audited financial statements for the year ended May 31, 2019, were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See APPENDIX A for a copy of the District's May 31, 2019, audited financial statements.

THE DEVELOPER

In general, activities of developers of property located in utility districts, such as the District, include establishing a marketing program and building schedule, securing necessary governmental approvals and permits, arranging for the construction of roads and installation of utilities (including gas, telephone and electric service as well as water, sanitary sewer and drainage facilities), providing amenities to encourage home buying in the development, and selling improved lots and commercial reserves to builders or others. In addition, developers are usually the major taxpayers during the development phase of property within the utility district.

Recent single-family development in the District has been conducted by Silver Springs, Ltd. ("Silver Springs, Ltd." or the "Developer"), a Texas limited partnership. Silver Springs, Ltd. has developed Silver Springs, Section 2. Silver Springs, Ltd. owns approximately 22 acres of undeveloped land in the District.

THE SYSTEM

Regulation

According to the Engineer, the District's water, wastewater and storm drainage improvements that have been financed with proceeds from the Outstanding Bonds (the "System") have been designed and the corresponding plans prepared in accordance with accepted engineering practices and specifications and the approval and permitting requirements of the Texas Department of Health, Texas Commission on Environmental Quality, Harris County, the City of Houston, Harris County Flood Control District, and the Harris-Galveston Subsidence District, where applicable. Each of the aforementioned agencies exercises continuing jurisdiction over the District's facilities.

Source of Water Supply

Water supply to the District is provided by North Harris County Regional Water Authority (the "Authority" or "NHCRA") pursuant to a Water Supply Agreement dated February 18, 2010. According to the District's engineer, the District receives sufficient surface water from the NHCRA under the Water Supply Agreement to meet the District's average daily demand, and may supplement from its water well in peak demand or in the case of emergency as necessary.

The District's water supply facilities include two water plants ("Water Plant No. 1" and "Water Plant No. 2"). Water Plant No. 1 consists of a 1,000 gallon per minute ("gpm") well, 420,000 gallons of ground storage tank capacity, 30,000 gallons of pressure tank capacity, 3,150 gpm of booster pump capacity and related appurtenances. In addition, Water Plant No. 2 and an associated 16-inch waterline are expected to be operational by April 2020. Water Plant No. 2 will consist of a 20,000-gallon pressure tank, 247,000 gallons of ground storage tank capacity, and 2,400 gpm of booster pump capacity. According to the District's Engineer, after completion of Water Plant No. 2, the District's facilities will have sufficient water production capacity to serve 2,100 equivalent single-family connections.

The District has three emergency water interconnects with Northwest Harris County Municipal Utility District No. 22 ("MUD 22").

Subsidence District Requirements

The District is within the boundaries of the Harris-Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in areas within the Subsidence District’s jurisdiction. In 1999, the Texas legislature created the NHCRWA to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County (including the District). The NHCRWA has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The NHCRWA’s GRP sets forth the NHCRWA’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 NHCRWA has entered into a Water Supply Contract with the City of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The District is included within the NHCRWA’s GRP and receives surface water from the NHCRWA.

The NHCRWA has the power to issue debt supported by the revenues pledged for the payment of its obligations and may establish fees, rates, and charges as necessary to accomplish its purposes. The NHCRWA currently charges the District, and other major groundwater users, a fee of \$3.85 per 1,000 gallons of groundwater pumped and \$4.30 per 1,000 gallons for surface water received. Effective April 1, 2020, the fees increase to \$4.25 per 1,000 gallons of groundwater pumped and \$4.70 per 1,000 gallons for surface water received. These fees are subject to increase in the future. The NHCRWA has issued revenue bonds to fund, among other things, certain NHCRWA surface water project costs, including the construction of a network of transmission and distribution lines, storage tanks and pumping stations to transport and distribute water within the NHCRWA (the “Authority System”). It is expected that the NHCRWA will issue substantially more bonds by the year 2035 to finance the NHCRWA’s project costs.

Under the Subsidence District regulations and the GRP, the NHCRWA is required to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand within the NHCRWA’s GRP beginning in 2010; (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand within the NHCRWA’s GRP beginning in 2025; and (iii) limit groundwater withdrawals to no more than 20% of the total water demand within the NHCRWA’s GRP beginning in 2035. If the NHCRWA fails to comply with the above Subsidence District regulations or its GRP, the NHCRWA is subject to a \$9.00 per 1,000 gallons disincentive fee penalty (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand within the NHCRWA’s GRP. In the event of such NHCRWA failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. Groundwater pumped from wells located within the NHCRWA is not currently subject to the Disincentive Fee. If the District failed to comply with surface water conversion requirements mandated by the NHCRWA, the NHCRWA would likely seek monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the NHCRWA in the future, but anticipates the need to continue passing such fees through to its customers resulting in higher water rates. 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 NHCRWA: (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.

The NHCRWA completed construction of its transmission line to serve the District in 2005, and has provided the District sufficient groundwater through its groundwater transfer system to enable the District to blend its well water with the groundwater from the NHCRWA to meet USEPA arsenic limits. Commencing in February 2010, the NHCRWA supplied the District with surface water in compliance with its GRP requirements.

Source of Wastewater Treatment

Wastewater treatment for the development within the District is provided by a 1,500,000 gallon per day (“gpd”) wastewater treatment plant (“Regional Plant”) operated by Northwest Harris County Municipal Utility District No. 21 (“MUD 21”). The District entered into an agreement with MUD 21 and MUD 22 to share in the construction, ownership and operating costs of the Regional Plant. The District owns a 37.67% share in the plant or 565,100 gpd of capacity, which is capable of serving approximately 1,884 equivalent single-family connections which is adequate for current and proposed development. Additional capacity may be added by purchase of capacity from MUD 21 or MUD 22 or by expanding the existing plant as necessary. A portion of Bond proceeds will be used to purchase an additional 38,400 gpd of capacity from MUD 21 for 128 lots located in Silver Springs, Section 2.

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 floodplain, is depicted on these maps. The 100-year floodplain (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. The 0.2% chance of probable inundation, also known as the 500-year floodplain, is depicted on these maps. The 500-year floodplain (or 0.2% 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 two tenths of one percent chance of occurring in any given year.

Generally speaking, homes must be built above the 100-year floodplain 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 floodplain 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 floodplain have flooded multiple times in the last several years.

In accordance with the amended Regulations for Floodplain Management, approved on December 5, 2017 by Harris County Commissioners Court, future development in the 100-year floodplain shall have higher finished floor elevations. This new amendment was effective on January 1, 2018. These amendments reflect an effort by Harris County to revise subdivision and permitting regulations that will assist in mitigation of flooding in future developments. The County defined future development in the 100-year floodplain by either a Class “I” or Class “II” permit. Future development in the District will be built in accordance with the new improved regulations. This amendment required certain developments to be at or above the 500-year floodplain.

According to the Engineer, approximately 29 acres in the District are shown to be within the 100-year floodplain and approximately 58 acres are shown to be within the 500-year floodplain as shown on the Federal Emergency Management Administration Flood Insurance Rate Map for the area date June 18, 2007. Of the 100-year floodplain area in the District, approximately 14 acres are within currently developed areas and approximately 15 acres are within future developable areas. Of the 500-year floodplain area in the District, approximately 40 acres are currently in the developed area, and approximately 18 acres are in the future developable area.

A determination has not been made as to whether the finished floor elevation of any houses or structures located on the existing developed land in the District is below either the 100-year or 500-year floodplains. Homes located in Silver Springs, Section 2 and 3 have been removed from the defined floodplains. In addition, all future developments will be required to be constructed above the established 100-year or 500-year floodplain elevations in accordance with the recently amended rules of Harris County and Harris County Flood Control District. See “INVESTMENT CONSIDERATIONS—Recent Tropical Weather Events; Hurricane Harvey.”

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Use and Distribution of Bond Proceeds

The estimated use and distribution of Bond proceeds is shown below. Of proceeds to be received from sale of the Bonds, \$3,002,867 is estimated for construction costs, and \$687,133 is estimated for non-construction costs, including \$97,650 in capitalized interest on the Bonds.

CONSTRUCTION COSTS	
Water, Sewer & Drainage Facilities to serve Silver Springs, Section 2.....	\$ 936,018
Water Plant No. 1 Booster Pump Addition.....	397,250
Purchase of Wastewater Capacity.....	374,400
12 Inch Water Line along Richey Road to Walters Road.....	340,000
Lift Stations No. 2 and No. 3 Electrical Rehabilitation.....	410,000
Engineering.....	470,199
Contingency.....	75,000
	\$ 3,002,867
Total Construction Costs	
NON-CONSTRUCTION COSTS	
Legal Fees.....	\$ 73,800
Financial Advisory Fees.....	73,800
Developer Interest.....	130,306
Capitalized Interest (a).....	97,650
Bond Discount (a).....	73,975
Bond Issuance Expenses.....	51,112
Bond Application Report.....	50,000
TCEQ Fee (0.25%).....	9,225
Attorney General Fee.....	3,690
Contingency (a).....	123,575
	\$ 687,133
Total Non-Construction Costs	\$ 687,133
TOTAL BOND ISSUE	\$ 3,690,000

(a) In its order approving the Bonds, the Commission directed that any surplus bond proceeds resulting from the sale of the Bonds at a lower Bond discount and interest rate than that proposed, shall be shown as a contingency line item in the Official Statement and the use of such funds shall be subject to approval by the Commission.

FINANCIAL STATEMENT

2019 Certified Taxable Assessed Valuation.....	\$163,624,579 (a)
Estimate of Taxable Assessed Valuation as of January 1, 2020.....	\$164,816,483 (b)
 District Debt:	
Outstanding Bonds (as of March 1, 2020)	\$6,940,000
The Bonds	<u>3,690,000</u>
Gross Debt Outstanding (after issuance of the Bonds)	\$10,630,000
 Ratio of Gross Debt to 2019 Certified Taxable Assessed Valuation	
	6.50%
Ratio of Gross Debt to Estimate of Taxable Assessed Valuation as of January 1, 2020.....	
	6.45%

Area of District—459 Acres

Estimated 2020 Population—4,033(c)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable appraised value within the District on January 1, 2020. No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. See “TAX PROCEDURES.”
- (c) Based on 3.5 persons per occupied home and 2.0 persons per multifamily unit.

Cash and Investment Balances (Unaudited as of March 18, 2020)

Debt Service Fund	Cash and Temporary Investments	\$ 842,778 (a)
Operating Fund	Cash and Temporary Investments	\$3,826,108
Capital Projects Fund	Cash and Temporary Investments	\$ 949,978

- (a) Includes funds for the April 1, 2020 debt service payment of \$108,234. In addition, out of proceeds of the Bonds, the District will deposit an amount equal to twelve (12) months of interest on the Bonds into the Debt Service Fund. Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.

Outstanding Bonds (as of March 1, 2020)

Series	Original Principal Amount	Outstanding Bonds (as of 3/1/20)
2013	\$ 2,540,000	\$ 1,840,000
2015	2,590,000	2,020,000
2018	3,080,000	3,080,000
Total	\$ 8,210,000	\$ 6,940,000

Investment Policies and Procedures

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District are invested in short-term obligations of the U.S. Treasury and federal agencies, certificates of deposit insured by the Federal Deposit Insurance Corporation (“FDIC”) or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own or intend to purchase long-term securities, commercial paper or derivative products.

ESTIMATED OVERLAPPING DEBT AND TAX RATES

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,885,182,125	1/31/2020	0.03%	\$ 565,555
Harris County Flood Control District.....	83,075,000	1/31/2020	0.03%	24,923
Harris County Department of Education.....	6,320,000	1/31/2020	0.03%	1,896
Harris County Hospital District.....	57,300,000	1/31/2020	0.03%	17,190
Port of Houston Authority.....	572,569,397	1/31/2020	0.03%	171,771
Spring Independent School District.....	710,180,000	1/31/2020	1.12%	7,954,016
Lone Star College District.....	579,645,000	1/31/2020	0.08%	463,716
Total Estimated Overlapping Debt.....				\$ 9,199,066
The District.....	10,630,000 (a)	Current	100.00%	10,630,000
Total Direct and Estimated Overlapping Debt.....				\$ 19,829,066
Ratio of Estimated Direct and Overlapping Debt to 2019 Certified Assessed Valuation.....				6.50%
Ratio of Estimated Direct and Overlapping Debt to Estimated Taxable Assessed Valuation as of January 1, 2020.....				12.12%

(a) Gross Debt; includes the Bonds.

Overlapping Taxes

	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
Spring Independent School District.....	1.43000
Harris County ESD No. 9.....	0.05980
Lone Star College System.....	0.10780
Total Overlapping Tax Rate.....	\$ 2.21430
The District.....	0.76000
Total Tax Rate.....	\$ 2.97430

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 and statements for further and more complete information. Totals may vary slightly from totals elsewhere in this Official Statement due to differences in dates of data

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of February 29, 2020 (a)	
				Amount	Percent
2015	\$ 111,506,823	\$ 0.8400	\$ 936,495	\$ 932,570	99.58%
2016	126,516,943	0.8000	1,012,135	1,007,343	99.53%
2017	136,400,913	0.7700	1,050,287	1,045,986	99.59%
2018	145,896,504	0.7600	1,108,798	1,097,479	98.98%
2019	163,635,191	0.7600	1,244,826	1,104,822	88.75% (b)

(a) Unaudited.

(b) In the process of collections.

Taxes are due October 1; delinquent after January 31 of the following year. No split payments allowed; no discounts allowed.

Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$ 0.39	\$ 0.39	\$ 0.34	\$ 0.37	\$ 0.44
Maintenance and Operations	0.37	0.37	0.43	0.43	0.40
Total	\$ 0.76	\$ 0.76	\$ 0.77	\$ 0.80	\$ 0.84

Tax Rate Limitations

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

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

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds and Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Outstanding Bonds. See "Tax Rate Distribution" above and "Summary of Assessed Valuation" below and "TAX PROCEDURES."

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 11, 1979, the Board was authorized to levy such a maintenance tax at an unlimited rate. Such tax, if levied, would be in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2019 in the amount of \$0.37 per \$100 assessed valuation.

Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. For tax year 2020, the District has granted an exemption of \$25,000 of the appraised value of resident homesteads for taxpayers who are disabled or over 65 years of age.

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 April 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.

Principal Taxpayers

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the 2019 certified tax rolls, which reflects ownership at January 1, 2019. A principal taxpayer list related to the Estimate of Taxable Assessed Valuation as of January 1, 2020 is not available at this time.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
Camillo Properties Ltd. (a)	Lots & Homes	\$ 9,884,934	6.04%
Champions Creek Forest LLC	Apartments	7,951,028	4.86%
12800 Verterans Memorial Ltd.	Shopping Center	3,779,202	2.31%
PS Texas Holdings Ltd.	Mini-Warehouse	3,676,591	2.25%
Circle K Stores	Service Station	2,440,873	1.49%
VMLH LLC	Service Station	2,107,971	1.29%
Camillo Houses CV #2 LLC (a)	Lots & Homes	1,660,726	1.01%
SandJoe Inc.	Service Station	1,212,783	0.74%
Great Mark Consolidated Ltd.	Land	1,127,381	0.69%
Individual	Shopping Center	1,053,398	0.64%
Total		\$ 34,894,887	21.33%

(a) Related entities.

Summary of Assessed Valuation

The following summaries of the 2019, 2018 and 2017 Certified Taxable Assessed Valuations are provided by the District's Tax Assessor/Collector based on information contained in the respective certified tax rolls of the District. Totals may vary slightly from totals elsewhere in this Official Statement due to differences in dates of data. A breakdown of the Estimate of Taxable Assessed Valuation as of January 1, 2020 is not available at this time.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land	\$ 45,287,276	\$ 40,725,530	\$ 35,400,983
Improvements	181,778,162	137,335,339	133,619,390
Personal Property	4,680,429	3,895,239	4,314,988
Exemptions	(68,110,676)	(36,047,104)	(36,921,948)
Total	<u>\$ 163,635,191</u>	<u>\$ 145,909,004</u>	<u>\$ 136,413,413</u>

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2019 Certified Taxable Assessed Valuation and the Estimate of Taxable Assessed Valuation as of January 1, 2020 and a debt service tax rate necessary to pay the District's maximum annual and average annual debt service requirements on the Outstanding Bonds and the Bonds. See "INVESTMENT CONSIDERATIONS—Maximum Impact on District Tax Rate."

Maximum annual debt service requirement (2028)	\$662,181
\$0.43 tax rate on the 2019 Certified Taxable Assessed Valuation	
@ 95% collections produces	\$668,406
\$0.43 tax rate on the Estimate of Taxable Assessed Valuation as of January 1, 2020	
@ 95% collections produces	\$673,275
Average annual debt service requirement (2020-2043).....	\$622,557
\$0.41 tax rate on the 2019 Certified Taxable Assessed Valuation	
@ 95% collections produces	\$637,318
\$0.40 tax rate on the Estimate of Taxable Assessed Valuation as of January 1, 2020	
@ 95% collections produces	\$626,303

No representation or suggestion is made that the estimates of values of land and improvements provided by the Appraisal District as of January 1, 2020 for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their 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 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 Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS—Source of Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system. See "TAX DATA—Debt Service Tax" and "—Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the

Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2020 tax year, the District has granted an exemption of \$25,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (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, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods in transit personal property but may choose to exempt some in the future by official action.

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2020 tax year, the District has not granted a general residential homestead exemption.

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. 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. Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

District and Taxpayer Remedies

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

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

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use for the three (3) to five (5) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2020, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation

specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

Rollback of Operation and Maintenance Tax Rate

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, which effectively restricts increases in the District's operation and maintenance tax rates by requiring rollback elections to reduce the operation and maintenance tax component of the District's total tax rate (collectively, the debt service tax rate, maintenance and operations tax rate and contract tax rate are the "total tax rate"). See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. SB 2 requires a reduction in the operation and maintenance tax component of the District's total tax rate if the District's total tax rate surpasses the thresholds for specific classes of districts in SB 2. 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 "Low Tax Rate Districts." 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 are classified herein as "Other 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.

Low Tax Rate Districts: Low Tax Rate Districts 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 a rollback 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 Low Tax Rate District is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the district in that year, subject to certain homestead exemptions.

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 a rollback 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 the operation and maintenance tax rate that would impose 1.035 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, 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 Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate Districts.

Other Districts: Districts that do not meet the classification of a Low Tax Rate District or a Developed District are classified as Other Districts. The qualified voters of these districts, upon the Other 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 a rollback election is called and passes, the total tax rate for Other Districts is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the district in that year, subject to certain homestead exemptions.

The District: A determination as to a district's status as a Low Tax Rate District, Developed District or Other District will be made on an annual basis, at the time a district sets its tax rate, 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 rollback 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 against which the tax is levied. In addition, on January 1, of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "ESTIMATED OVERLAPPING DEBT AND TAX RATES." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS—Tax Collection Limitations."

The Effect of FIRREA on Tax Collections of the District

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

WATER AND SEWER OPERATIONS

General

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District and are further payable from and secured by a pledge of and lien on Net Revenues of the District's waterworks and sanitary sewer system. It is anticipated that no significant Net Revenues, if any, will be available for debt service on the Bonds in the foreseeable future.

Waterworks and Sewer System Operation

The following statement sets forth in condensed form the historical results of operation of the District's water and sewer system as shown in the District's audited financial statements for the fiscal years ending May 31, 2016 through 2019 and an unaudited summary prepared by the bookkeeper as of February 29, 2020. Accounting principles customarily employed in the determination of net revenues for coverage of debt service have been observed and, in all instances, exclude depreciation. Reference is made to APPENDIX A for further and more complete information.

	6/1/2019 to 2/29/2020(a)	Fiscal Year Ended May 31			
		2019	2018	2017	2016
Revenues					
Property Taxes	\$ 577,300	\$ 514,980	\$ 583,164	\$ 538,556	\$ 446,148
Water Service	290,151	311,880	284,709	284,345	271,932
Wastewater Service	234,743	308,962	278,471	280,611	265,917
Regional Water Authority Fee	413,722	419,230	378,417	315,472	273,000
Tap Connection and Inspection Fees	7,845	293,070	-	-	35,285
Penalty and Interest	43,047	40,437	38,357	36,045	37,078
Investment Revenues	84,778	84,042	27,596	13,620	10,223
Regional Water Authority Credits	-	21,912	21,912	21,912	21,912
Capital Recovery Fee	-	762,848	-	-	-
Miscellaneous	-	8,149	3,500	4,671	4,553
Total Revenues	\$ 1,651,586	\$ 2,765,510	\$ 1,616,126	\$ 1,495,232	\$ 1,366,048
Expenditures					
Professional Fees	\$ 118,034	\$ 173,485	\$ 164,572	\$ 245,788	\$ 221,002
Contracted Services	69,913	93,368	88,400	89,197	88,158
Purchased Water Service	-	306,283	250,832	251,562	232,426
Purchased Wastewater Service	201,637	282,691	212,128	208,587	209,272
Utilities	20,177	29,840	28,410	29,140	32,573
Repairs and Maintenance	140,196	225,233	237,697	197,566	276,335
Regional Water Authority Assessment	307,831	47,403	40,633	34,136	28,228
Other	126,748	256,977	132,496	134,637	143,712
Bond Issuance Costs	-	-	-	-	-
Capital Outlay	1,233,715	556,168	262,330	1,312,066 (d)	293,000
Total Expenditures	\$ 2,218,251	\$ 1,971,448	\$ 1,417,498	\$ 2,502,679	\$ 1,524,706
Revenues Over (Under) Expenditures	\$ (566,665)	\$ 794,062	\$ 198,628	\$ (1,007,447)	\$ (158,658)
Other Sources (Interfund Transfer)					
Interfund Transfer	\$ -	\$ 75,035	\$ -	\$ -	\$ 641,871 (f)
Contributed by Other Government Unit	-	283,500 (b)	-	-	-
Developer Contribution	-	368,750 (c)	-	927,225 (e)	179,982 (g)
Fund Balance (Beginning of Year)	\$ 4,316,182	\$ 2,794,835	\$ 2,596,207	\$ 2,676,429	\$ 2,013,234
Fund Balance (End of Year)	\$ 3,749,517	\$ 4,316,182	\$ 2,794,835	\$ 2,596,207	\$ 2,676,429

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

(b) Represents Spring Independent School District portion of water plant generator expense.

(c) Developer contribution for utilities to serve commercial tracts.

(d) Expenditures include purchase of additional wastewater capacity from Northwest Harris County MUD No. 21 and rehabilitation of existing District facilities.

(e) Developer contribution for purchase of additional wastewater capacity from Northwest Harris County MUD No. 21.

(f) Includes approximately \$121,092 in reimbursement for sanitary sewer rehabilitation and approximately \$520,779 in reimbursements from Series 2015 previously paid with operating funds.

(g) Developer contribution for utilities to serve commercial tracts.

DEBT SERVICE REQUIREMENTS

The following sets forth the actual debt service requirements for the Outstanding Bonds and the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2020	\$ 556,469		\$ 40,688	\$ 40,688	\$ 597,156
2021	559,669		97,650	97,650	657,319
2022	557,219		97,650	97,650	654,869
2023	557,881		97,650	97,650	655,531
2024	562,856		97,650	97,650	660,506
2025	561,456		97,650	97,650	659,106
2026	559,756		97,650	97,650	657,406
2027	557,294		97,650	97,650	654,944
2028	564,531		97,650	97,650	662,181
2029	560,144		97,650	97,650	657,794
2030	290,131	\$ 250,000	97,650	347,650	637,781
2031	289,581	250,000	92,650	342,650	632,231
2032	288,644	255,000	87,650	342,650	631,294
2033	287,550	255,000	81,913	336,913	624,463
2034	291,050	260,000	76,175	336,175	627,225
2035	289,225	260,000	70,000	330,000	619,225
2036	286,969	260,000	63,500	323,500	610,469
2037	279,544	260,000	57,000	317,000	596,544
2038	282,119	270,000	49,200	319,200	601,319
2039	274,069	270,000	41,100	311,100	585,169
2040	271,019	275,000	33,000	308,000	579,019
2041	277,500	275,000	24,750	299,750	577,250
2042	268,438	275,000	16,500	291,500	559,938
2043	259,375	275,000	8,250	283,250	542,625
Total	\$ 9,532,488	\$ 3,690,000	\$ 1,718,875	\$ 5,408,875	\$ 14,941,363

Maximum Annual Debt Service Requirement (2028)\$662,181
Average Annual Debt Service Requirement (2020-2043)\$622,557

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not obligations of the State of Texas, Harris County, the City of Houston, or any other political entity other than the District, will be secured by an annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property within the District and by a pledge of certain net revenues, if any, derived from the operation of the District's waterworks and sanitary sewer and drainage facilities. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

Infectious Disease Outlook (COVID-19)

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance of an Executive Order on March 31, 2020, which, among other things, prohibits social gatherings of more than 10 people through April 30, 2020 and orders the closure of schools throughout the state through May 4, 2020, unless otherwise extended, modified, rescinded, or superseded by the Governor. In addition, Harris County, within which the District is located, has issued a "stay home" order for most citizens except when engaged in specified essential businesses and government functions. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 to address the potential impact of COVID-19 upon the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

Recent Tropical Weather Events: Hurricane Harvey

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

The greater Houston area has experienced 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 District’s Operator, the District’s water and sewer system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, according to the District’s Operator, after investigation, although the District experienced street flooding, there was no apparent material wind or water damage to homes or commercial improvements within the District.

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

Specific Flood Type Risks

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

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

Economic Factors and Interest Rates

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

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located 16 miles northwest of the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and the national financial and credit markets. A downturn in the economic conditions of the City or the nation could adversely affect development and homebuilding plans in the District and restrain or reduce the growth of the District’s property tax base.

Dependence on Principal Taxpayers

Based upon the 2019 certified tax rolls, the top ten taxpayers are responsible for approximately 21.33% (\$34,894,887) of the District's 2019 certified taxes (\$163,624,579). The principal taxpayer within the District is Camillo Properties Ltd. and its related entity, Camillo Homes CV #2 LLC, which together represent approximately 7.05% (\$11,545,660) of the certified portion of the District's 2019 Taxable Assessed Valuation. See "THE DISTRICT—Status of Development" and "TAX DATA—Principal Taxpayers." The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy a higher tax rate or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Order, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis.

Maximum Impact on District Tax Rate

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2019 Certified Taxable Assessed Valuation is \$163,624,579. After issuance of the Bonds, the maximum annual debt service requirement will be \$662,181 (2028) and the average annual debt service requirement will be \$622,557 (2020-2043). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.43 and \$0.41 per \$100 of assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and average annual debt service requirement, respectively. The Estimate of Taxable Assessed Valuation as of January 1, 2020 is \$164,816,483. Assuming no increase or decrease from the Estimate of Taxable Assessed Valuation as of January 1, 2020, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.43 and \$0.40 per \$100 of assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and average annual debt service requirement, respectively. See "DEBT SERVICE REQUIREMENTS." Although calculations have been made regarding the tax rate necessary to pay the maximum and average annual debt service on the Bonds based upon the 2019 Certified Taxable Assessed Valuation or the Estimate of Taxable Assessed Valuation as of January 1, 2020, the District can make no representations regarding the future level of assessed valuation within the District. See "TAX PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. At elections held within the District, voters in the District authorized \$31,000,000 in principal amounts of unlimited tax and revenue bonds for the purposes of purchasing and constructing a water, wastewater and storm drainage system in the District, and \$9,750,000 unlimited tax and revenue refunding bonds. After the issuance of the Bonds, the District will have \$13,365,000 in unlimited tax and revenue bonds authorized but unissued and \$2,940,000 in unlimited tax and revenue refunding bonds authorized but unissued. After issuance of the Bonds, the Developer will have expended approximately \$2,025,000 for design, construction and acquisition of District water, wastewater and drainage facilities not yet reimbursed.

In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds for the construction of additional water, wastewater and storm sewer facilities is subject to approval by the TCEQ pursuant to issuance guidelines established by the TCEQ. See "THE BONDS—Issuance 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 taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedure against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAX PROCEDURES—District's Rights in the Event of Tax Delinquencies."

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the 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.

Bankruptcy Limitation to Registered Owners' Rights

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (1) is authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, the District must also obtain the approval of the TCEQ prior to filing bankruptcy. Such law requires that the TCEQ investigate the financial conditions of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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

The District may not be placed into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

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

Marketability

The District has no agreement with the Initial Purchaser 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.

Environmental and Air Quality Regulation

Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

- Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
- Restricting the manner in which wastes are released into the air, water, or soils;
- Restricting or regulating the use of wetlands or other property;
- Requiring action to prevent or mitigate pollution;
- Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a municipal utility district or other type of district (“Utility Districts”) 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 injunctive relief as to future compliance of and the ability to operate the Utility District’s water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area’s ability to grow and develop. The following is a discussion of certain environmental concerns that relate to Utility Districts, including the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Air Quality/Greenhouse Gas Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)-Harris, Galveston Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties-was designated by the EPA in 2008 as a severe ozone nonattainment area under the 1997 “eight-hour” ozone standards (“the 1997 Ozone Standards”). In December 2015, the EPA determined that the HGB area has reached attainment under the 1997 Ozone Standards, and in May 2016, the EPA issued a proposed rule approving Texas’s redesignation substitute demonstration for the HGB area. However, until the EPA issues a final ruling, the HGC area is still subject to anti-backsliding obligations and nonattainment new source review requirements associated with the 1997 Ozone Standards.

In 2008, the EPA lowered the ozone standard from 80 parts per billion (“ppb”) to 75 ppb (“the 2008 Ozone Standard”) and designated the HGB area as a marginal ozone nonattainment area, effective July 20, 2012. Such nonattainment areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA’s 2008 Ozone Standard is met. The HGB area did not reach attainment under the 2008 Ozone Standard by the 2016 deadline, and on September 21, 2016, the EPA proposed to reclassify the HGB area from marginal to moderate under the 2008 Ozone Standard. If reclassified, the HGB area’s 2008 Ozone Standard attainment deadline must be met as expeditiously as practicable, but in any event no later than July 20, 2018. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA’s 2008 Ozone Standard, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 parts per billion to 70 ppb (“the 2015 Ozone Standard”). On August 3, 2016, the TCEQ recommended to the EPA that all counties designated as nonattainment for the 2008 Ozone Standard be designated nonattainment for the 2015 Ozone Standard as well, which will impose additional ozone-reduction obligations on the HGB area. This could make it more difficult for the HGB area to demonstrate progress in reducing ozone concentration.

In order to comply with the EPA's ozone standards for the HGB area, the TCEQ has established a state implementation plan ("SIP") 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. It is possible that additional controls will be necessary to allow the HGB area to reach attainment 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 Utility Districts, including the District, may be required to comply with involve: (1) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

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

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

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

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

The Commission reissued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (TXR040000) on December 13, 2013. TXR040000 became effective on December 13, 2013 and authorizes the discharge of stormwater to surface waters within the state from small municipal separate storm sewer systems ("Small MS4s"). TXR040000, as reissued, impacts a much greater number of Small MS4s that were not subject to the prior permit due to the 2010 Urbanized Area data released from the US Census Bureau. TXR040000, as reissued, also contains more stringent requirements compared to the prior permit. Small MS4s that are subject to TXR040000, as reissued, most have applied for authorization under such permit by June 11, 2014. Notwithstanding the foregoing, the District is located within Harris County and its Small MS4 is subject to regulation by Harris County. Harris County, along with the City of Houston, Harris County Flood Control District, and the Texas Department of Transportation (collectively, the "Joint Task Force") have been issued a joint permit by the United States Environmental Protection Agency which authorizes the discharge of stormwater to surface waters within the state from their respective separate storm sewer systems. Joint Task Force members regulate stormwater discharges within their respective jurisdictions. Harris County regulates the District's Small MS4 and, therefore, the Commission does not at this time require the District to obtain coverage under TXR040000. Small MS4 regulation by Joint Task Force members may change in the future and the Commission may require the District to obtain coverage under TXR040000 in the future.

Operations of Utility Districts, including the District, are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the U.S. Army Corps of Engineers ("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 officially became final on December 23, 2019, but the repeal itself has become the subject of litigation in multiple jurisdictions.

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR will become effective 60 days after the date of its publication in the Federal Register and will likely become the subject of further litigation.

Due to ongoing rulemaking activity, as well as existing and possible future litigation, 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.

Future and Proposed Legislation

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

Risk Factors on Municipal Bond Insurance

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

The long-term ratings on the Bonds are dependent in part on the financial strength of the insurance provider (the “Insurer”) providing the Policy 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 Initial Purchaser 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.

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from the proceeds of an ad valorem tax levied without limit as to rate or amount upon all taxable property in the District and the Net Revenues of the District and, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the legal opinion of Bond Counsel to the effect that the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law and from Net Revenues, if any, derived from operation of the District's system. Bond Counsel's opinion will also address the matters described below under "Tax Exemption." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for the subcaption "Book-Entry-Only System"), "THE DISTRICT—General," "MANAGEMENT—Attorney," "TAX PROCEDURES," "LEGAL 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 herein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has either conducted an investigation of the affairs of the District or the Developer for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

In addition to serving as Bond Counsel, Strawn & Richardson, P.C., also acts as counsel to the District on matters not related to 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 upon a percentage of Bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. McCall, Parkhurst & Horton, L.L.P., Houston, Texas, serves as Disclosure Counsel to the District. The fees paid to Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Tax Exemption

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

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the Issuer made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the Issuer with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds. 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 its ultimate outcome.

Ancillary Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, all of which are subject to change or modification, retroactively.

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

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

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

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

Tax Accounting Treatment of Discount Bonds

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

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

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

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

No-Litigation Certificate

With the delivery of the Bonds, the President and Secretary of the Board will, on behalf of the District, execute a certificate, dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is then pending against or, to the best knowledge of the certifying officers, threatened against the District contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority of proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District, or the titles of the then present officers of the Board.

No Material Adverse Change

The obligations of the Initial Purchaser 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 financial condition of the District from that set forth or contemplated in the Preliminary Official Statement as amended or supplemented through the date of the sale.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") bearing the interest rates shown on the cover page hereof, at a price of 97.9952% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 2.849299% as calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser 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 Initial Purchaser may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of 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 United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; 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.

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), will assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. Moody's has assigned an underlying credit rating of "A3" to the Bonds. An explanation of the ratings may be obtained from S&P and Moody's.

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

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services, were \$534.9 million, \$132.5 million and \$402.4 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this Official Statement have been obtained primarily from the District’s records, the Engineer, the Tax Assessor/Collector, the Appraisal District and from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under “Certification of Official Statement.” Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, including the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this Official Statement. 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 System and, in particular that information included in the sections entitled “THE DISTRICT” and “THE SYSTEM” (as related to District facilities) has been provided by JNS Engineers, LLC, 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 Certified Taxable Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Bob Leared Interests and is included herein in reliance upon the authority of such person as an expert in assessing and collecting taxes.

Auditor: The District's audited financial statements for the year ended May 31, 2019, were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See APPENDIX A for a copy of the District's May 31, 2019, audited 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 Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser 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 (but not more than 90 days after the date the District delivers the Bonds).

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the "FINANCIAL STATEMENT," "TAX DATA," "DEBT SERVICE REQUIREMENTS," and "WATER AND SEWER OPERATIONS," (most of which information is contained in the District's annual audit report) and in Appendix A (Audited Financial Statements). The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the generally accepted auditing standards adopted by the American Institute of Certified Public Accountants except as otherwise provided by the Water District Annual Audit Report Requirements Manual adopted by the Texas Commission on Environmental Quality, as from time to time revised, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is May 31. Accordingly, it must provide updated information by November 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of SEC Rule 15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (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 within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. The term "Financial Obligation" when used in this paragraph means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB. Investors can access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as changed circumstances, and either the Holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of SEC Rule 15c2-12 or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by the District 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 Northwest Harris County Municipal Utility District No. 23, as of the date shown on the cover page.

/s/ Lenora Flores
Second Vice President, Board of Directors
Northwest Harris County Municipal Utility District No. 23

ATTEST:

/s/ Earlinda Trujillo
Secretary, Board of Directors
Northwest Harris County Municipal Utility District No. 23

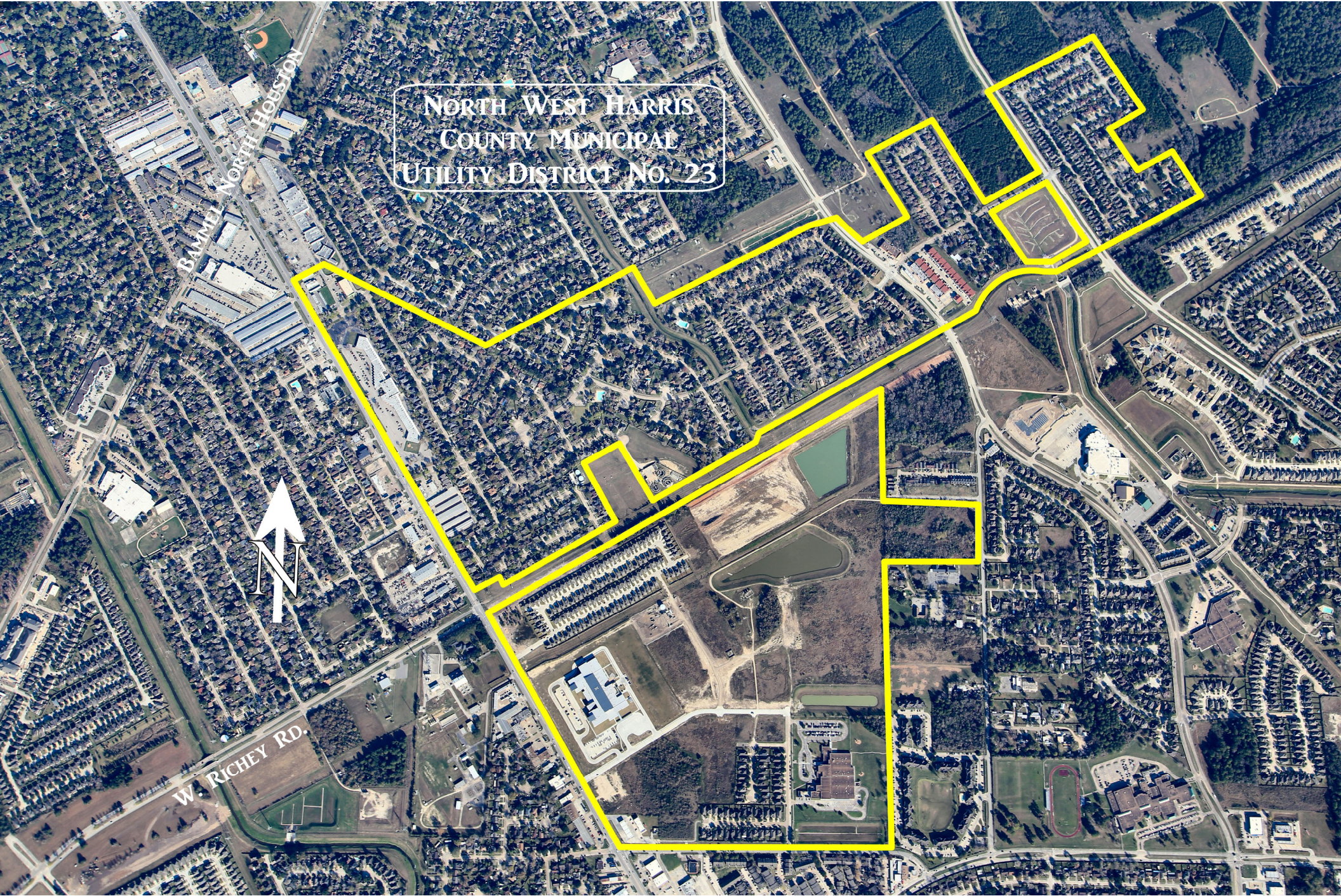
AERIAL LOCATION MAP
(Approximate boundaries as of February 2020)

NORTH WEST HARRIS
COUNTY MUNICIPAL
UTILITY DISTRICT No. 23

Bammel North Houston



W. RICHEY RD.



**PHOTOGRAPHS OF THE DISTRICT
(Taken February 2020)**













APPENDIX A

District Audited Financial Statements for the fiscal year ended May 31, 2019

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23**

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2019

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23**

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2019

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McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northwest Harris County Municipal
Utility District No. 23
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Northwest Harris County Municipal Utility District No. 23 (the "District"), as of and for the year ended May 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of May 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

September 4, 2019

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2019**

Management’s discussion and analysis of Northwest Harris County Municipal Utility District No. 23’s (the “District”) financial performance provides an overview of the District’s financial activities for the fiscal year ended May 31, 2019. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$5,416,917 as of May 31, 2019.

A portion of the District's net position reflects its net investment in capital assets (e.g. land, buildings and equipment as well as water, wastewater and drainage facilities less any debt used to acquire those assets that is still outstanding).

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 9,444,136	\$ 5,491,023	\$ 3,953,113
Capital Assets (Net of Accumulated Depreciation)	10,283,992	9,143,325	1,140,667
Total Assets	\$ 19,728,128	\$ 14,634,348	\$ 5,093,780
Long -Term Liabilities	\$ 6,908,531	\$ 4,190,000	\$ (2,718,531)
Other Liabilities	7,402,680	6,475,499	(927,181)
Total Liabilities	\$ 14,311,211	\$ 10,665,499	\$ (3,645,712)
Net Position:			
Net Investment in Capital Assets	\$ (123,326)	\$ 105,087	\$ (228,413)
Restricted	905,461	768,385	137,076
Unrestricted	4,634,782	3,095,377	1,539,405
Total Net Position	\$ 5,416,917	\$ 3,968,849	\$ 1,448,068

The following table provides a summary of the District's operations for the years ending May 31, 2019, and May 31, 2018.

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,107,629	\$ 1,052,968	\$ 54,661
Charges for Services	1,402,168	1,028,585	373,583
Regional Water Authority Credits	16,032	16,365	(333)
Other Revenues	1,196,734	37,152	1,159,582
Total Revenues	\$ 3,722,563	\$ 2,135,070	\$ 1,587,493
Expenses for Services	2,274,495	1,703,198	(571,297)
Change in Net Position	\$ 1,448,068	\$ 431,872	\$ 1,016,196
Net Position, Beginning of Year	3,968,849	3,536,977	431,872
Net Position, End of Year	\$ 5,416,917	\$ 3,968,849	\$ 1,448,068

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of May 31, 2019, were \$8,174,250, an increase of \$3,363,217 from the prior year.

The General Fund fund balance increased by \$1,521,347 primarily due to service revenues, capital recovery fee and developer contributions exceeding service operations and capital costs.

The Debt Service Fund fund balance increased by \$122,439, primarily due to the structure of the District's outstanding debt service requirements and the sale of Series 2018 bonds.

The Capital Projects Fund fund balance increased by \$1,719,431, primarily due the sale of Series 2018 bonds and proceeds still on hand at year end.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal. Actual revenues were \$1,124,510 more than budgeted revenues primarily due to receiving a capital recovery fee from Spring Independent School District. Actual expenditures were \$568,878 more than budgeted.

CAPITAL ASSETS

Capital assets as of May 31, 2019, total \$10,283,992 (net of accumulated depreciation) and include land, buildings and equipment as well as the water, wastewater service and drainage systems. During the current fiscal year, the District purchased land for the Water Plant No. 2 site. Construction in progress includes construction and engineering for the wastewater treatment plant improvements, water plant improvements, Water Plant No. 1 motor control center , Water Plant No. 2, Phase 1 and the North Harris County Regional Water Authority Surface Water Transmission Line.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 115,009	\$ 23,795	\$ 91,214
Construction in Progress	2,214,975	827,417	1,387,558
Capital Assets, Net of Accumulated Depreciation:			
Water System	1,391,301	1,493,796	(102,495)
Wastewater System	2,328,537	2,417,092	(88,555)
Drainage System	2,712,470	2,792,254	(79,784)
Investment in Wastewater Treatment Plant Capacity	1,521,700	1,588,971	(67,271)
Total Net Capital Assets	<u>\$ 10,283,992</u>	<u>\$ 9,143,325</u>	<u>\$ 1,140,667</u>

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2019**

LONG-TERM DEBT ACTIVITY

As of May 31, 2019, the District had total long-term debt payable of \$7,270,000.

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

Bond Debt Payable, June 1, 2018	\$ 4,510,000
Add: Bond Sale Series 2018	3,080,000
Less: Bond Principal Paid	<u>320,000</u>
Bond Debt Payable, May 31, 2019	<u><u>\$ 7,270,000</u></u>

The Series 2013 Bonds carry an underlying rating of “A-” and the Series 2015 and Series 2018 Bonds carry an underlying rate of “A3”. The Series 2013, Series 2015, and Series 2018 Bonds also carry an insured rating of “AA” by virtue of bond insurance by Build America Mutual Assurance Company. The above ratings reflect all changes through May 31, 2019.

CONTACTING THE DISTRICT’S MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Northwest Harris County Municipal Utility District No. 23, c/o Strawn & Richardson, P.C., 6750 West Loop South, Suite 865, Bellaire, Texas 77401.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2019**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 157,625	\$ 568,146
Investments	4,474,301	261,119
Receivables:		
Property Taxes	57,287	60,121
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$10,400)	151,100	
Accrued Interest	49,024	
Other	3,662	
Due from Other Funds	2,852	
Prepaid Costs	15,047	
Due from Other Governmental Units		
Advance for Regional Wastewater Treatment Plant Operations	35,410	
Chloramine Credits Receivable		
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 4,946,308	\$ 889,386

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 580,264	\$ 1,306,035	\$	\$ 1,306,035
2,424,610	7,160,030		7,160,030
	117,408		117,408
		57,885	57,885
	151,100		151,100
	49,024		49,024
	3,662		3,662
73,043	75,895	(75,895)	
	15,047		15,047
287,222	287,222		287,222
	35,410		35,410
		261,313	261,313
		115,009	115,009
		2,214,975	2,214,975
		7,954,008	7,954,008
\$ 3,365,139	\$ 9,200,833	\$ 10,527,295	\$ 19,728,128

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2019**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 267,734	\$
Accrued Interest Payable		
Due to Other Governments	37,198	
Due to Developers	7,289	
Due to Other Funds	73,043	2,852
Due to Taxpayers		1,780
Security Deposits	187,575	
Long-Term Liabilities:		
Due Within One Year		
Due After One Year		
TOTAL LIABILITIES	\$ 572,839	\$ 4,632
 DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 57,287	\$ 60,121
 FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 15,047	\$
Advance for Regional Wastewater Treatment		
Plant Operations	35,410	
Restricted for Authorized Construction:		
Restricted for Debt Service		824,633
Unassigned	4,265,725	
TOTAL FUND BALANCES	\$ 4,316,182	\$ 824,633
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 4,946,308	\$ 889,386
 NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 331,704	\$ 599,438	\$	\$ 599,438
	37,198	37,178	37,178
	7,289	6,202,222	37,198
	75,895	(75,895)	6,209,511
	1,780		1,780
	187,575		187,575
		330,000	330,000
		6,908,531	6,908,531
<u>\$ 331,704</u>	<u>\$ 909,175</u>	<u>\$ 13,402,036</u>	<u>\$ 14,311,211</u>
<u>\$ -0-</u>	<u>\$ 117,408</u>	<u>\$ (117,408)</u>	<u>\$ -0-</u>
\$	\$ 15,047	\$ (15,047)	\$
	35,410	(35,410)	
3,033,435	3,033,435	(3,033,435)	
	824,633	(824,633)	
	4,265,725	(4,265,725)	
<u>\$ 3,033,435</u>	<u>\$ 8,174,250</u>	<u>\$ (8,174,250)</u>	<u>\$ - 0 -</u>
<u>\$ 3,365,139</u>	<u>\$ 9,200,833</u>		
		\$ (123,326)	\$ (123,326)
		905,461	905,461
		4,634,782	4,634,782
		<u>\$ 5,416,917</u>	<u>\$ 5,416,917</u>

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MAY 31, 2019**

Total Fund Balances - Governmental Funds	\$	8,174,250
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Credits due from the North Harris County Regional Water Authority for capital advances are not current financial resources and, therefore, are not reported as assets in the governmental funds.</p>		261,313
<p>Land, construction in progress and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.</p>		10,283,992
<p>Deferred inflows of resources related to property tax revenues for the 2018 and prior tax levies and penalty and interest receivable for the 2018 and prior tax levies became part of recognized revenues in the governmental activities of the District.</p>		175,293
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:</p>		
Accrued Interest Payable	\$ (37,178)	
Due to Developers	(6,202,222)	
Bonds Payable Within One Year	(330,000)	
Bonds Payable After One Year	(6,908,531)	
		(13,477,931)
Total Net Position - Governmental Activities	\$	5,416,917

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

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**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 514,980	\$ 539,689
Water Service	311,880	
Wastewater Service	308,962	
Regional Water Authority Fees	419,230	
Penalty and Interest	40,437	17,749
Tap Connection and Inspection Fees	293,070	
Investment Revenues	84,042	6,766
Regional Water Authority Credits	21,912	
Capital Recovery Fee	762,848	
Miscellaneous Revenues	8,149	28
TOTAL REVENUES	<u>\$ 2,765,510</u>	<u>\$ 564,232</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 173,485	\$ 51
Contracted Services	93,368	25,988
Purchased Water Service	306,283	
Purchased Wastewater Service	282,691	
Utilities	29,840	
Regional Water Authority Assessments	47,403	
Repairs and Maintenance	225,233	
Depreciation		
Other	256,977	4,111
Capital Outlay	556,168	
Debt Service:		
Bond Issuance Costs		
Bond Principal		320,000
Bond Interest		196,774
TOTAL EXPENDITURES/EXPENSES	<u>\$ 1,971,448</u>	<u>\$ 546,924</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 794,062</u>	<u>\$ 17,308</u>
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ 75,035	\$
Contributed by Other Government Unit	283,500	
Developer Contributions	368,750	
Bond Discounts		
Long-Term Debt Issued		105,131
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 727,285</u>	<u>\$ 105,131</u>
NET CHANGE IN FUND BALANCES	\$ 1,521,347	\$ 122,439
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JUNE 1, 2018	<u>2,794,835</u>	<u>702,194</u>
FUND BALANCES/NET POSITION - MAY 31, 2019	<u>\$ 4,316,182</u>	<u>\$ 824,633</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,054,669	\$ 52,960	\$ 1,107,629
	311,880		311,880
	308,962		308,962
	419,230		419,230
	58,186	10,840	69,026
	293,070		293,070
51,401	142,209		142,209
	21,912	(5,880)	16,032
	762,848		762,848
	8,177	283,500	291,677
<u>\$ 51,401</u>	<u>\$ 3,381,143</u>	<u>\$ 341,420</u>	<u>\$ 3,722,563</u>
\$	\$ 173,536	\$	\$ 173,536
	119,356		119,356
	306,283		306,283
	282,691		282,691
	29,840		29,840
	47,403		47,403
	225,233		225,233
		338,105	338,105
106	261,194		261,194
922,604	1,478,772	(1,478,772)	
276,481	276,481		276,481
	320,000	(320,000)	
	196,774	17,599	214,373
<u>\$ 1,199,191</u>	<u>\$ 3,717,563</u>	<u>\$ (1,443,068)</u>	<u>\$ 2,274,495</u>
\$ (1,147,790)	\$ (336,420)	\$ 336,420	\$ -0-
\$ (75,035)	\$	\$	\$
	283,500	(283,500)	
	368,750	(368,750)	
(32,613)	(32,613)	32,613	
<u>2,974,869</u>	<u>3,080,000</u>	<u>(3,080,000)</u>	
<u>\$ 2,867,221</u>	<u>\$ 3,699,637</u>	<u>\$ (3,699,637)</u>	<u>\$ -0-</u>
\$ 1,719,431	\$ 3,363,217	\$ (3,363,217)	\$
		1,448,068	1,448,068
1,314,004	4,811,033	(842,184)	3,968,849
<u>\$ 3,033,435</u>	<u>\$ 8,174,250</u>	<u>\$ (2,757,333)</u>	<u>\$ 5,416,917</u>

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2019**

Net Change in Fund Balances - Governmental Funds	\$	3,363,217
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenues are recorded in the accounting period for which the taxes are levied.		52,960
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the government-wide financial statements, revenues are recorded when penalty and interest are assessed.		10,840
Governmental funds report North Harris County Regional Water Authority credits as revenues. In the government-wide financial statements, the principal portion of the credits decreases long-term receivables and the balance is recorded as investment revenues.		(5,880)
Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(338,105)
Governmental funds report capital asset costs as expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases that meet the District's threshold for capitalization, and are owned and maintained by the District. All other capital asset purchases are expensed in the Statement of Activities.		1,478,772
Governmental funds report bond discounts as other financing uses in the year paid. However, in the Statement of Net Position, the bond discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		32,613
Governmental funds report principal payments on long-term debt as expenditures. However, in the government-wide financial statements, principal payments decrease long-term liabilities.		320,000
Governmental funds report interest payments on long-term debt as expenditures in the year paid. However, in the government-wide financial statements, interest is accrued on the long-term debt through fiscal year-end.		(17,599)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the government-wide financial statements.		(3,080,000)
Governmental funds report developer contributions as other financing sources. However, in the government-wide financial statements, developer contributions, net any amount paid to the developer, are recorded as a liability.		(368,750)
Change in Net Position - Governmental Activities	\$	<u>1,448,068</u>

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 1. CREATION OF DISTRICT

Northwest Harris County Municipal Utility District No. 23, located in Harris County, Texas (the “District”) was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”), effective July 3, 1979. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct and maintain parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on July 12, 1979, and the first bonds were sold on July 7, 1980.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

The District has entered into an agreement with Northwest Harris County Municipal Utility District No. 21 (“District No. 21”) and Northwest Harris County Municipal Utility District No. 22 (“District No. 22”) for wastewater disposal. Oversight responsibility of the Northchase Regional Sewage Treatment Plant is with District No. 21. Additional disclosure concerning this agreement is provided in Note 8.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

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

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

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

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

Government-Wide Financial Statements

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

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

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

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

The District chose to early implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Interest costs will no longer be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements.

Assets are capitalized, including infrastructure assets, if they have an original cost of \$5,000 or more and a useful life of at least two years following the date of acquisition. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

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

Budgeting

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

Pensions

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

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

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	<u>Series 2013</u>	<u>Series 2015</u>	<u>Series 2018</u>
Amounts Outstanding – May 31, 2019	\$ 2,015,000	\$ 2,175,000	\$ 3,080,000
Interest Rates	2.00% - 3.625%	2.00% - 3.25%	3.00% - 3.75%
Maturity Dates - Serially Beginning/Ending	October 1, 2020/2029	October 1, 2020/2029	October 1, 2030/2043
Interest Payment Dates	October 1/ April 1	October 1/ April 1	October 1/ April 1
Callable Dates	October 1, 2020*	October 1, 2022*	October 1, 2023*

* Or on any date thereafter, at the option of the District, in whole or in part, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. The Series 2013 term bonds maturing October 1, 2023, October 1, 2025, October 1, 2027, and October 1, 2029, are subject to mandatory redemption beginning October 1, 2022, October 1, 2024, October 1, 2026, and October 1, 2028, respectively. The Series 2015 term bonds maturing October 1, 2021, are subject to mandatory redemption beginning October 1, 2020.

The following is a summary of transactions regarding long-term liabilities for the year ended May 31, 2019:

	<u>June 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>May 31, 2019</u>
Bonds Payable	\$ 4,510,000	\$ 3,080,000	\$ 320,000	\$ 7,270,000
Unamortized Discounts		(32,613)	(1,144)	(31,469)
Bonds Payable, Net	<u>\$ 4,510,000</u>	<u>\$ 3,047,387</u>	<u>\$ 318,856</u>	<u>\$ 7,238,531</u>
		Amount Due Within One Year		\$ 330,000
		Amount Due After One Year		6,908,531
		Bonds Payable, Net		<u>\$ 7,238,531</u>

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 3. LONG-TERM DEBT (Continued)

As of May 31, 2019, the District had authorized but unissued bonds in the amount of \$17,055,000 for utility facilities and \$2,940,000 for refunding bonds.

As of May 31, 2019, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 330,000	\$ 219,769	\$ 549,769
2021	340,000	213,070	553,070
2022	350,000	205,944	555,944
2023	355,000	197,550	552,550
2024	365,000	187,870	552,870
2025-2029	2,010,000	764,541	2,774,541
2030-2034	1,210,000	486,503	1,696,503
2035-2039	1,095,000	315,411	1,410,411
2040-2044	1,215,000	113,362	1,328,362
	<u>\$ 7,270,000</u>	<u>\$ 2,704,020</u>	<u>\$ 9,974,020</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and wastewater system.

During the year ended May 31, 2019, the District levied an ad valorem debt service tax rate of \$0.39 per \$100 of assessed valuation, which resulted in a tax levy of \$570,726 on the adjusted taxable valuation of \$146,339,944 for the 2018 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

- A. The bond orders state that any profit realized from or interest accruing on such investments shall belong to the fund from which the moneys for such investments were taken.
- B. The bond orders state that the District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on each 5th year anniversary of the bonds.
- C. The bond orders state that the District is required to provide continuing disclosure of certain financial and operating data with respect to the District to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access system (“EMMA”). This information, along with audited annual financial statements, is to be provided within six months after the end of the District’s fiscal year, throughout the life of the bonds.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District’s bank deposits was \$5,016,468 and the bank balance was \$5,008,710. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at May 31, 2019, as listed below:

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 157,625	\$ 3,710,433	\$ 3,868,058
DEBT SERVICE FUND	568,146		568,146
CAPITAL PROJECTS FUND	580,264		580,264
TOTAL DEPOSITS	<u>\$ 1,306,035</u>	<u>\$ 3,710,433</u>	<u>\$ 5,016,468</u>

Investments

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

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

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of May 31, 2019, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$ 763,868	\$ 763,868	\$	\$	\$
Certificates of Deposit	3,710,433	3,710,433			
<u>DEBT SERVICE FUND</u>					
TexPool	261,119	261,119			
<u>CAPITAL PROJECTS FUND</u>					
TexPool	2,424,610	2,424,610			
TOTAL INVESTMENTS	\$ 7,160,030	\$ 7,160,030	\$ - 0 -	\$ - 0 -	\$ - 0 -

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2019, the District's investment in TexPool was rated "AAAm" by Standard and Poor's. The District also manages credit risk by investing in certificates of deposit covered by FDIC insurance and pledged collateral.

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

Restrictions

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

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended May 31, 2019:

	June 1, 2018	Increases	Decreases	May 31, 2019
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 23,795	\$ 91,214	\$	\$ 115,009
Construction in Progress	827,417	1,478,772	91,214	2,214,975
Total Capital Assets Not Being Depreciated	<u>\$ 851,212</u>	<u>\$ 1,569,986</u>	<u>\$ 91,214</u>	<u>\$ 2,329,984</u>
Capital Assets Subject to Depreciation				
Water System	\$ 3,577,532	\$	\$	\$ 3,577,532
Wastewater System	3,659,545			3,659,545
Drainage System	3,567,416			3,567,416
Investment in Wastewater Treatment Plant Capacity	2,654,651			2,654,651
Total Capital Assets Subject to Depreciation	<u>\$ 13,459,144</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 13,459,144</u>
Less Accumulated Depreciation				
Water System	\$ 2,083,736	\$ 102,495	\$	\$ 2,186,231
Wastewater System	1,242,453	88,555		1,331,008
Drainage System	775,162	79,784		854,946
Investment in Wastewater Treatment Plant Capacity	1,065,680	67,271		1,132,951
Total Accumulated Depreciation	<u>\$ 5,167,031</u>	<u>\$ 338,105</u>	<u>\$ - 0 -</u>	<u>\$ 5,505,136</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,292,113</u>	<u>\$ (338,105)</u>	<u>\$ - 0 -</u>	<u>\$ 7,954,008</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 9,143,325</u>	<u>\$ 1,231,881</u>	<u>\$ 91,214</u>	<u>\$ 10,283,992</u>

NOTE 7. MAINTENANCE TAX

On August 11, 1979, the voters of the District approved the levy and collection of a maintenance tax, without limitation as to rate or amount, on all taxable property within the District. This maintenance tax is to be used in the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.37 per \$100 of assessed valuation, which resulted in a tax levy of \$541,458 on the taxable valuation of \$146,339,944 for the 2018 tax year.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 8. REGIONAL SEWAGE TREATMENT PLANT AGREEMENT

On December 13, 1979, the District entered into an agreement with District No. 21 and District No. 22 to share in the construction, ownership and operating costs of a 500,000 gallon per day regional sewage treatment plant (the "Plant"). The agreement was amended on September 16, 1985, May 9, 2006, December 13, 2014, and December 31, 2016.

In 1981, the Plant was expanded to 1,000,000 gallons per day capacity, and in 2005, the Plant was again expanded to 1,500,000 gallons per day capacity. The agreement provides for each district to pay a portion of the construction costs based upon its pro rata share of capacity. Each district owns an undivided interest in the Plant equal to its pro rata share of total capacity. The District purchased 50,000 gallons per day sewage treatment capacity from District No. 22 for \$199,500 on November 1, 2005. Effective December 13, 2014, the agreement was extended for a term of 40 years and shall automatically renew for additional one-year terms unless terminated under any provision of the agreement or by any party within 90 days of the expiration of any extension term. Effective December 31, 2016, District No. 21 sold 95,100 gallons per day capacity to the District.

The participating districts and their respective pro rata share of capacity in the Plant are:

	<u>Capacity in Total Gallons Per day</u>	<u>Percentage of Total Capacity</u>
District No. 21	429,900	28.66%
District No. 22	505,000	33.67
The District	<u>565,100</u>	<u>37.67</u>
TOTAL	<u>1,500,000</u>	<u>100.00%</u>

District No. 21 is responsible for operating and maintaining the Plant and bills each participant on a monthly basis for their share of operating expenditures.

Certain fixed operating costs are allocated based on each district's pro rata share of Plant ownership; all other operating costs are allocated based on each district's pro rata share of billed water consumption served by the Plant. In the current fiscal year, the District maintained its advance for operations and maintenance of the Plant at \$35,410. The District recorded \$282,691 as its share of operating costs of the Plant. Of this amount, \$35,986 was payable to the Plant at the fiscal year-end.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 8. REGIONAL SEWAGE TREATMENT PLANT AGREEMENT (Continued)

The following summary financial data on the Northchase Regional Sewage Treatment Plant is presented for the fiscal year ended May 31, 2019. Separate financial statements are issued on the Plant and can be obtained from the District's attorney.

Total Assets	\$ 1,074,344
Total Liabilities	<u>980,344</u>
Total Fund Balance	<u>\$ 94,000</u>
Total Revenues	\$ 1,512,864
Total Expenditures	<u>778,073</u>
Excess Expenditures	\$ 734,791
Other Financing Sources (Uses)	
Capital Outlay Expenditures	<u>\$ (734,791)</u>
Change in Fund Balance	\$ -0-
Fund Balance – June 1, 2018	<u>94,000</u>
Fund Balance – May 31, 2019	<u>\$ 94,000</u>

NOTE 9. EMERGENCY WATER SUPPLY CONTRACT

On August 18, 1981, the District entered into an emergency water supply contract with District No. 22 whereby each district will furnish the other district emergency water supply service for a period of 40 years. The District will maintain the interconnect and all such maintenance costs will be equally shared between the two districts.

The charge for emergency water service will be a daily rate calculated as the minimum monthly water bill of the district selling water times the number of connections in the district purchasing water divided by 30. On June 10, 2004, the District approved the First Amendment to the Emergency Water Supply Contract. This contract includes District No. 21 as well as District No. 22 and the District. The amended contract provides for the repayment of water in-kind within 180 days and eliminated the need for the supplying district to recoup the Authority assessment from the receiving district. After 180 days, an invoice will be issued for emergency water service to be paid in cash at a rate of \$1.00 per 1,000 gallons of water used plus the Authority assessment and any and all other assessments or regulation charges paid by the supplying district.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 10. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the North Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the “Act”), as passed by the 75th Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority is overseeing that its participants comply with the Harris-Galveston Subsidence District pumpage requirements. The current fee is \$4.30 for each 1,000 gallons of surface water purchased. The District recorded an expenditure of \$306,283 for water purchased from the Authority during the current fiscal year. A five-member board of directors governs the Authority. The directors serve staggered four-year terms. The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. The current fee is \$3.85 for each 1,000 gallons of water pumped. The District recorded an expenditure of \$47,403 for fees assessed during the current fiscal year.

Chloramine Conversion Reimbursement

The Authority required the District to convert its water systems to chloramine disinfection for as long as it is connected to the Authority’s system. The District has completed its chloramine system. The District’s reimbursable cost of this system was \$301,606. The Authority calculated the reimbursement at 6% interest over a 30-year period. The District began receiving chloramine conversion credits on the January 2011 Authority billing. Total credits earned in the current fiscal year were \$21,912. Of this amount, \$5,880 was a return of principal with the balance being applicable to interest. The following is a schedule of the remaining chloramine conversion credits to be received under the terms of the agreement.

Fiscal Year	Principal	Interest	Total
2020	\$ 6,232	\$ 15,679	\$ 21,911
2021	6,606	15,305	21,911
2022	7,003	14,908	21,911
2023	7,423	14,488	21,911
2024	7,868	14,043	21,911
2025-2029	47,016	62,541	109,557
2030-2034	62,918	46,639	109,557
2035-2039	84,198	25,358	109,556
2040-2041	32,049	2,644	34,693
	<u>\$ 261,313</u>	<u>\$ 211,605</u>	<u>\$ 472,918</u>

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 11. RISK MANAGEMENT

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

NOTE 12. UNREIMBURSED DEVELOPER COSTS

The District has executed several development financing agreements with developers within the District. The agreements call for the developers to fund costs associated with the construction of new water, wastewater and drainage facilities until such time as the District can sell bonds. These developers advanced \$380,000 for the purchase of capacity in the wastewater treatment plant, construction of a 16-inch water transmission line to connect to the North Harris County Regional Water Authority and engineering fees related to ongoing District projects. The cost basis of projects funded by a developer and the related liability are recorded in the Statement of Net Position when the project is completed and ready for use and the District operates or maintains the facility. The District has recorded a liability of \$6,202,222 as of May 31, 2019, for completed projects.

Amounts reported by the developers may be estimates. Actual amounts may vary. Any reimbursement for these costs will come from the proceeds of a future bond sale.

NOTE 13. INTERFUND BALANCES AND TRANSFERS

The Debt Service Fund (Tax Account) owed the General Fund \$2,852 for maintenance tax collections. The General Fund owed the Capital Projects Fund \$50,205 for the amounts spent in excess from the Capital Projects Fund for the 2015 Wastewater Treatment Plant Rehabilitation, wastewater treatment plant lift station pump replacement, dewatering box expansion and engineering for the North Harris County Regional Water Authority surface water transmission line, \$22,838 for the refund of funds related to the District No. 22 joint project; and for amounts approved in the Series 2018 Bond issue.

During the current fiscal year, the Capital Projects Fund transferred 75,035 to the General Fund to reimburse for engineering costs paid in the prior fiscal year related to the Water Plant No. 1 motor control center, Water Plant No. 2, Phase 1 and the North Harris County Regional Water Authority Surface Water Transmission Line.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2019**

NOTE 14. WATER SUPPLY AGREEMENT

On February 18, 2010, the District entered into a Water Supply Agreement with the North Harris County Regional Water Authority (the “Authority”) in order for the District to maintain compliance with the Commission’s requirements related to the District’s minimum water supply capacity. The Authority agrees to sell and deliver to the District a volume of the Authority’s water between 0.2 and 0.7 million gallons per day. The term of this agreement shall end on January 1, 2040.

NOTE 15. ESCROW REQUIREMENT

The District was directed by the Commission to escrow \$1,434,864 (\$728,696 for construction for 2015 wastewater treatment plant rehabilitation, \$535,680 for 2017 wastewater treatment plant rehabilitation, \$38,818 for wastewater treatment plant lift station pump replacement, \$82,609 for wastewater trunkline rehabilitation and \$49,061 for dewatering box expansion) of its Series 2015 Bonds pending approval. On May 20, 2016, the Commission approved the release of \$816,575 for the 2015 wastewater treatment plant rehabilitation, wastewater treatment plant lift station pump replacement and dewatering box expansion. On March 3, 2017, the Commission approved the release of \$82,609 for wastewater trunkline rehabilitation. As of year-end, \$535,680 was required to remain in escrow.

NOTE 16. BOND SALE

On July 12, 2018, the District closed on the sale of its \$3,080,000 Series 2018 Unlimited Tax and Revenue Bonds. The District used proceeds of the bonds to fund the construction and engineering of Water Plant No. 2, Phase 1, the North Harris County Regional Water Authority Surface Water Transmission Line, Water Plant No. 1 electrical code upgrades and motor control center replacement; Water Plant No. 2 site acquisition; 12 months of capitalized interest; and pay for the bond issuance costs.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23**

REQUIRED SUPPLEMENTARY INFORMATION

MAY 31, 2019

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2019**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 577,000	\$ 514,980	\$ (62,020)
Water Service	295,000	311,880	16,880
Wastewater Service	285,000	308,962	23,962
Regional Water Authority Fees	423,000	419,230	(3,770)
Penalty and Interest	40,000	40,437	437
Tap Connection and Inspection Fees		293,070	293,070
Investment Revenues	21,000	84,042	63,042
Regional Water Authority Credits		21,912	21,912
Capital Recovery Fee		762,848	762,848
Miscellaneous Revenues		8,149	8,149
TOTAL REVENUES	<u>\$ 1,641,000</u>	<u>\$ 2,765,510</u>	<u>\$ 1,124,510</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 207,500	\$ 173,485	\$ 34,015
Contracted Services	90,720	93,368	(2,648)
Purchased Water Service	332,000	306,283	25,717
Purchased Wastewater Service	225,000	282,691	(57,691)
Utilities	35,000	29,840	5,160
Regional Water Authority Assessments		47,403	(47,403)
Repairs and Maintenance	210,000	225,233	(15,233)
Other	147,350	256,977	(109,627)
Capital Outlay	155,000	556,168	(401,168)
TOTAL EXPENDITURES	<u>\$ 1,402,570</u>	<u>\$ 1,971,448</u>	<u>\$ (568,878)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 238,430</u>	<u>\$ 794,062</u>	<u>\$ 555,632</u>
OTHER FINANCING SOURCES(USES)			
Transfers In (Out)	\$	\$ 75,035	\$ 75,035
Contributed by Other Government Unit		283,500	283,500
Developer Contributions		368,750	368,750
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -0-</u>	<u>\$ 727,285</u>	<u>\$ 727,285</u>
NET CHANGE IN FUND BALANCE	\$ 238,430	\$ 1,521,347	\$ 1,282,917
FUND BALANCE - JUNE 1, 2018	<u>2,794,835</u>	<u>2,794,835</u>	
FUND BALANCE - MAY 31, 2019	<u>\$ 3,033,265</u>	<u>\$ 4,316,182</u>	<u>\$ 1,282,917</u>

See accompanying independent auditor's report.

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**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
MAY 31, 2019**

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2019**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved May 8, 2019.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 14.00	3,000	N	\$ 1.00 \$ 1.25 \$ 1.75 \$ 2.00 \$ 2.50	3,001 to 10,000 10,001 to 15,000 15,001 to 25,000 25,001 to 50,000 50,001 and up
WASTEWATER:	\$ 18.00		Y		
SURCHARGE:					
Regional Water Authority Fees			N	\$ 5.16	All
District employs winter averaging for wastewater usage?					_____ <u> X </u> Yes No

Total monthly charges per 10,000 gallons usage: Water: \$21.00 Wastewater: \$18.00 Surcharge: \$51.60 Total \$90.60

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2019**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	<u>1,263</u>	<u>1,249</u>	x 1.0	<u>1,249</u>
1"	<u>7</u>	<u>7</u>	x 2.5	<u>18</u>
1½"	<u>4</u>	<u>3</u>	x 5.0	<u>15</u>
2"	<u>14</u>	<u>13</u>	x 8.0	<u>104</u>
3"	<u>1</u>	<u>1</u>	x 15.0	<u>15</u>
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"	<u>1</u>	<u>1</u>	x 80.0	<u>80</u>
10"			x 115.0	
Total Water Connections	<u><u>1,292</u></u>	<u><u>1,276</u></u>		<u><u>1,556</u></u>
Total Wastewater Connections	<u><u>1,286</u></u>	<u><u>1,270</u></u>	x 1.0	<u><u>1,270</u></u>

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

Gallons pumped into system:	12,197,000	Water Accountability Ratio: 91.5% (Gallons billed, sold, flushing and breaks/Gallons pumped and purchased)
Gallons purchased:	68,939,000	From: Northwest Harris County Municipal Utility District No. 21/22
Gallons purchased:	17,070,000	From: Northwest Harris County Municipal Utility District No. 21/22
Gallons billed to customers:	89,835,000	

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2019**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ's in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2019**

PROFESSIONAL FEES:	
Auditing	\$ 15,975
Engineering	98,073
Legal	<u>59,437</u>
TOTAL PROFESSIONAL FEES	<u>\$ 173,485</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 306,283
Purchased Wastewater Service	<u>282,691</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 588,974</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 19,216
Operations and Billing	<u>48,895</u>
TOTAL CONTRACTED SERVICES	<u>\$ 68,111</u>
UTILITIES:	
Electricity	<u>\$ 29,840</u>
REPAIRS AND MAINTENANCE	<u>\$ 225,233</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 20,850
Dues	650
Insurance	20,056
Office Supplies and Postage	31,481
Payroll Taxes	1,497
Election Costs	4,873
Travel and Meetings	<u>10,974</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 90,381</u>
CAPITAL OUTLAY:	
Capitalized Assets	\$ 556,168
Expenditures Not Capitalized	<u> </u>
TOTAL CAPITAL OUTLAY	<u>\$ 556,168</u>

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2019**

TAP CONNECTIONS	<u>\$ 99,709</u>
SECURITY	<u>\$ 25,257</u>
OTHER EXPENDITURES:	
Chemicals	\$ 6,099
Laboratory Fees	16,309
Permit Fees	2,881
Reconnection Fees	21,388
Inspection Fees	17,275
Regulatory Assessment	2,935
Regional Water Authority Assessments	<u>47,403</u>
TOTAL OTHER EXPENDITURES	<u>\$ 114,290</u>
TOTAL EXPENDITURES	<u><u>\$ 1,971,448</u></u>

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
INVESTMENTS
MAY 31, 2019**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 763,868	\$
Certificate of Deposit	XXXX7577	2.75%	02/10/20	240,000	1,989
Certificate of Deposit	XXXX0105	2.38%	07/18/19	347,384	7,180
Certificate of Deposit	XXXX3200	2.35%	08/06/19	240,000	4,604
Certificate of Deposit	XXXX0940	2.35%	08/09/19	239,204	4,543
Certificate of Deposit	XXXX2316	2.35%	09/14/19	240,000	4,002
Certificate of Deposit	XXXX3073	2.65%	09/14/19	240,000	4,513
Certificate of Deposit	XXXX1235	2.38%	09/13/19	483,845	8,203
Certificate of Deposit	XXXX0595	2.75%	10/19/19	240,000	4,050
Certificate of Deposit	XXXX6976	2.75%	12/12/19	240,000	3,074
Certificate of Deposit	XXXX5339	2.75%	12/12/19	240,000	3,074
Certificate of Deposit	XXXX2250	2.75%	03/26/20	240,000	1,193
Certificate of Deposit	XXXX6129	2.65%	04/23/20	240,000	662
Certificate of Deposit	XXXX5019	2.75%	04/24/20	240,000	670
Certificate of Deposit	XXXX1537	2.75%	03/22/20	240,000	1,267
TOTAL GENERAL FUND				<u>\$ 4,474,301</u>	<u>\$ 49,024</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	<u>\$ 261,119</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0003	Varies	Daily	<u>\$ 2,424,610</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u>\$ 7,160,030</u>	<u>\$ 49,024</u>

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2019**

	Maintenance Taxes		Debt Service Taxes
TAXES RECEIVABLE -			
JUNE 1, 2018	\$ 33,349		\$ 31,099
Adjustments to Beginning			
Balance	<u>(2,540)</u>	\$ 30,809	<u>(2,015)</u> \$ 29,084
Original 2018 Tax Levy	\$ 485,134		\$ 511,357
Adjustment to 2018 Tax Levy	<u>56,324</u>	<u>541,458</u>	<u>59,369</u> <u>570,726</u>
TOTAL TO BE			
ACCOUNTED FOR		\$ 572,267	\$ 599,810
TAX COLLECTIONS:			
Prior Years	\$ 14,250		\$ 11,892
Current Year	<u>500,730</u>	<u>514,980</u>	<u>527,797</u> <u>539,689</u>
TAXES RECEIVABLE -			
MAY 31, 2019		<u>\$ 57,287</u>	<u>\$ 60,121</u>
TAXES RECEIVABLE BY			
YEAR:			
2018		\$ 40,728	\$ 42,929
2017		3,579	2,830
2016		3,152	2,712
2015		2,056	2,261
2014		1,387	1,645
2013 and Prior		<u>6,385</u>	<u>7,744</u>
TOTAL		<u>\$ 57,287</u>	<u>\$ 60,121</u>

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2019**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 40,725,530	\$ 35,400,983	\$ 32,017,841	\$ 31,534,258
Improvements	137,644,417	134,054,127	126,326,282	115,869,068
Personal Property	3,881,851	4,287,304	3,949,219	3,264,100
Exemptions	<u>(35,911,854)</u>	<u>(36,533,315)</u>	<u>(35,591,850)</u>	<u>(38,856,842)</u>
TOTAL PROPERTY VALUATIONS	<u><u>\$ 146,339,944</u></u>	<u><u>\$ 137,209,099</u></u>	<u><u>\$ 126,701,492</u></u>	<u><u>\$ 111,810,584</u></u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.39	\$ 0.34	\$ 0.37	\$ 0.44
Maintenance**	<u>0.37</u>	<u>0.43</u>	<u>0.43</u>	<u>0.40</u>
TOTAL TAX RATES PER \$100 VALUATION	<u><u>\$ 0.76</u></u>	<u><u>\$ 0.77</u></u>	<u><u>\$ 0.80</u></u>	<u><u>\$ 0.84</u></u>
ADJUSTED TAX LEVY*	<u><u>\$ 1,112,184</u></u>	<u><u>\$ 1,056,510</u></u>	<u><u>\$ 1,013,612</u></u>	<u><u>\$ 939,209</u></u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u><u>92.48 %</u></u>	<u><u>99.39 %</u></u>	<u><u>99.42 %</u></u>	<u><u>99.54 %</u></u>

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

** Maintenance Tax – Voters approved a maintenance tax without limitation on August 11, 1979.

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2019**

S E R I E S - 2 0 1 3				
Due During Fiscal Years Ending May 31	Principal Due October 1	Interest Due October 1/ April 1	Total	
2020	\$ 175,000	\$ 57,100	\$	232,100
2021	180,000	53,550		233,550
2022	180,000	49,725		229,725
2023	180,000	45,000		225,000
2024	180,000	39,600		219,600
2025	185,000	34,125		219,125
2026	185,000	28,575		213,575
2027	185,000	22,794		207,794
2028	185,000	16,781		201,781
2029	190,000	10,331		200,331
2030	190,000	3,444		193,444
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				
2044				
	\$ 2,015,000	\$ 361,025	\$	2,376,025

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2019**

S E R I E S - 2 0 1 5				
Due During Fiscal Years Ending May 31	Principal Due October 1	Interest Due October 1/ April 1	Total	
2020	\$ 155,000	\$ 57,537	\$	212,537
2021	160,000	54,388		214,388
2022	170,000	51,087		221,087
2023	175,000	47,418		222,418
2024	185,000	43,138		228,138
2025	195,000	37,900		232,900
2026	205,000	31,900		236,900
2027	215,000	25,600		240,600
2028	225,000	19,000		244,000
2029	240,000	11,875		251,875
2030	250,000	4,062		254,062
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				
2044				
	\$ 2,175,000	\$ 383,905	\$	2,558,905

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2019**

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending May 31	Principal Due October 1	Interest Due October 1/ April 1	Total
2020	\$	\$ 105,132	\$ 105,132
2021		105,132	105,132
2022		105,132	105,132
2023		105,132	105,132
2024		105,132	105,132
2025		105,132	105,132
2026		105,132	105,132
2027		105,132	105,132
2028		105,132	105,132
2029		105,132	105,132
2030		105,132	105,132
2031	185,000	102,357	287,357
2032	190,000	96,611	286,611
2033	195,000	90,597	285,597
2034	200,000	84,300	284,300
2035	210,000	77,637	287,637
2036	215,000	70,596	285,596
2037	220,000	63,255	283,255
2038	220,000	55,830	275,830
2039	230,000	48,093	278,093
2040	230,000	40,043	270,043
2041	235,000	31,759	266,759
2042	250,000	22,968	272,968
2043	250,000	13,905	263,905
2044	250,000	4,687	254,687
	<u>\$ 3,080,000</u>	<u>\$ 1,959,090</u>	<u>\$ 5,039,090</u>

See accompanying independent auditor's report.

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**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2019**

**ANNUAL REQUIREMENTS
FOR ALL SERIES**

Due During Fiscal Years Ending May 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 330,000	\$ 219,769	\$ 549,769
2021	340,000	213,070	553,070
2022	350,000	205,944	555,944
2023	355,000	197,550	552,550
2024	365,000	187,870	552,870
2025	380,000	177,157	557,157
2026	390,000	165,607	555,607
2027	400,000	153,526	553,526
2028	410,000	140,913	550,913
2029	430,000	127,338	557,338
2030	440,000	112,638	552,638
2031	185,000	102,357	287,357
2032	190,000	96,611	286,611
2033	195,000	90,597	285,597
2034	200,000	84,300	284,300
2035	210,000	77,637	287,637
2036	215,000	70,596	285,596
2037	220,000	63,255	283,255
2038	220,000	55,830	275,830
2039	230,000	48,093	278,093
2040	230,000	40,043	270,043
2041	235,000	31,759	266,759
2042	250,000	22,968	272,968
2043	250,000	13,905	263,905
2044	250,000	4,687	254,687
	<u>\$ 7,270,000</u>	<u>\$ 2,704,020</u>	<u>\$ 9,974,020</u>

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MAY 31, 2019**

Description	Original Bonds Issued	Bonds Outstanding June 1, 2018
Northwest Harris County Municipal Utility District No. 23 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2013	\$ 2,540,000	\$ 2,190,000
Northwest Harris County Municipal Utility District No. 23 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2015	2,590,000	2,320,000
Northwest Harris County Municipal Utility District No. 23 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2018	<u>3,080,000</u>	<u> </u>
TOTAL	<u>\$ 8,210,000</u>	<u>\$ 4,510,000</u>
Bond Authority:	<u>Tax Bonds*</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 31,000,000	\$ 9,750,000
Amount Issued	<u>13,945,000</u>	<u>6,810,000</u>
Remaining to be Issued	<u><u>\$ 17,055,000</u></u>	<u><u>\$ 2,940,000</u></u>
Debt Service Fund cash and investment balances as of May 31, 2019:		<u>\$ 829,265</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u><u>\$ 398,961</u></u>

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

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding May 31, 2019</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 175,000	\$ 60,600	\$ 2,015,000	The Bank of New York Mellon Trust Company, N.A. New York, NY
	145,000	60,538	2,175,000	The Bank of New York Mellon Trust Company, N.A. New York, NY
<u>3,080,000</u>		<u>75,636</u>	<u>3,080,000</u>	The Bank of New York Mellon Trust Company, N.A. New York, NY
<u>\$ 3,080,000</u>	<u>\$ 320,000</u>	<u>\$ 196,774</u>	<u>\$ 7,270,000</u>	

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	Amount		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 514,980	\$ 583,164	\$ 538,556
Water Service	311,880	284,709	284,345
Wastewater Service	308,962	278,471	280,611
Regional Water Authority Fee	419,230	378,417	315,472
Penalty and Interest	40,437	38,357	36,045
Tap Connection and Inspection Fees	293,070		
Investment Revenues	84,042	27,596	13,620
Regional Water Authority Credits	21,912	21,912	21,912
Capital Recovery Fee	762,848		
Miscellaneous Revenues	8,149	3,500	4,671
TOTAL REVENUES	\$ 2,765,510	\$ 1,616,126	\$ 1,495,232
EXPENDITURES			
Professional Fees	\$ 173,485	\$ 164,572	\$ 245,788
Contracted Services	93,368	88,400	89,197
Purchased Water Service	306,283	250,832	251,562
Purchased Wastewater Service	282,691	212,128	208,587
Utilities	29,840	28,410	29,140
Regional Water Authority Assessments	47,403	40,633	34,136
Repairs and Maintenance	225,233	237,697	197,566
Other	256,977	132,496	134,637
Capital Outlay	556,168	262,330	1,312,066
Bond Issuance Costs			
TOTAL EXPENDITURES	\$ 1,971,448	\$ 1,417,498	\$ 2,502,679
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 794,062	\$ 198,628	\$ (1,007,447)
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$ 75,035	\$	\$
Contributed by Other Government Unit	283,500		
Developer Contributions	368,750		927,225
TOTAL OTHER FINANCING SOURCES (USES)	\$ 727,285	\$ - 0 -	\$ 927,225
NET CHANGE IN FUND BALANCE	\$ 1,521,347	\$ 198,628	\$ (80,222)
BEGINNING FUND BALANCE	2,794,835	2,596,207	2,676,429
ENDING FUND BALANCE	\$ 4,316,182	\$ 2,794,835	\$ 2,596,207

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 446,148	\$ 407,085	18.5 %	36.1 %	36.0 %	32.7 %	31.1 %
271,932	264,484	11.3	17.6	19.0	19.9	20.2
265,917	257,139	11.2	17.2	18.8	19.5	19.7
273,000	209,149	15.2	23.4	21.1	20.0	16.0
37,078	37,341	1.5	2.4	2.4	2.7	2.9
35,285	97,832	10.6			2.6	7.5
10,223	7,425	3.0	1.7	0.9	0.7	0.6
21,912	21,909	0.8	1.4	1.5	1.6	1.7
		27.6				
4,553	4,376	0.3	0.2	0.3	0.3	0.3
<u>\$ 1,366,048</u>	<u>\$ 1,306,740</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 221,002	\$ 223,319	6.3 %	10.2 %	16.4 %	16.2 %	17.1 %
88,158	83,623	3.4	5.5	6.0	6.5	6.4
232,426	236,408	11.1	15.5	16.8	17.0	18.1
209,272	220,846	10.2	13.1	14.0	15.3	16.9
32,573	21,745	1.1	1.8	1.9	2.4	1.7
28,228	14,906	1.7	2.5	2.3	2.1	1.1
276,335	148,672	8.1	14.7	13.2	20.2	11.4
143,712	152,288	9.3	8.2	9.0	10.5	11.7
293,000	691,140	20.1	16.2	87.7	21.4	52.9
	47,000					3.6
<u>\$ 1,524,706</u>	<u>\$ 1,839,947</u>	<u>71.3 %</u>	<u>87.7 %</u>	<u>167.3 %</u>	<u>111.6 %</u>	<u>140.9 %</u>
<u>\$ (158,658)</u>	<u>\$ (533,207)</u>	<u>28.7 %</u>	<u>12.3 %</u>	<u>(67.3) %</u>	<u>(11.6) %</u>	<u>(40.9) %</u>
\$ 641,871	\$ 718,752					
179,982	136,331					
<u>\$ 821,853</u>	<u>\$ 855,083</u>					
\$ 663,195	\$ 321,876					
2,013,234	1,691,358					
<u>\$ 2,676,429</u>	<u>\$ 2,013,234</u>					

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND – FIVE YEARS**

	Amount		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 539,689	\$ 462,849	\$ 465,342
Penalty and Interest	17,749	22,978	17,554
Investment Revenues	6,766	4,236	1,983
Miscellaneous Revenues	28		
TOTAL REVENUES	\$ 564,232	\$ 490,063	\$ 484,879
EXPENDITURES			
Tax Collection Expenditures	\$ 28,900	\$ 31,875	\$ 29,102
Debt Service Principal	320,000	315,000	305,000
Debt Service Interest and Fees	198,024	128,737	134,938
TOTAL EXPENDITURES	\$ 546,924	\$ 475,612	\$ 469,040
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 17,308	\$ 14,451	\$ 15,839
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$	\$	\$
Long-Term Debt Issued	105,131		
TOTAL OTHER FINANCING SOURCES (USES)	\$ 105,131	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 122,439	\$ 14,451	\$ 15,839
BEGINNING FUND BALANCE	702,194	687,743	671,904
ENDING FUND BALANCE	\$ 824,633	\$ 702,194	\$ 687,743
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,276	1,137	1,139
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,270	1,130	1,137

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 491,553	\$ 482,689	95.7 %	94.4 %	96.0 %	97.6 %	97.9 %
10,591	8,907	3.1	4.7	3.6	2.1	1.8
1,145	1,333	1.2	0.9	0.4	0.2	0.3
395	10				0.1	
<u>\$ 503,684</u>	<u>\$ 492,939</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 32,743	\$ 26,932	5.1 %	6.5 %	6.0 %	6.5 %	5.5 %
530,000	520,000	56.7	64.3	62.9	105.2	105.5
127,220	91,450	35.1	26.3	27.8	25.3	18.6
<u>\$ 689,963</u>	<u>\$ 638,382</u>	<u>96.9 %</u>	<u>97.1 %</u>	<u>96.7 %</u>	<u>137.0 %</u>	<u>129.6 %</u>
<u>\$ (186,279)</u>	<u>\$ (145,443)</u>	<u>3.1 %</u>	<u>2.9 %</u>	<u>3.3 %</u>	<u>(37.0) %</u>	<u>(29.6) %</u>
\$ 67,387	\$ 138,700					
<u>\$ 67,387</u>	<u>\$ 138,700</u>					
\$ (118,892)	\$ (6,743)					
790,796	797,539					
<u>\$ 671,904</u>	<u>\$ 790,796</u>					
1,132	1,133					
<u>1,127</u>	<u>1,130</u>					

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2019**

District Mailing Address - Northwest Harris County Municipal Utility District No. 23
c/o Strawn & Richardson, P.C.
6750 West Loop South, Suite 865
Bellaire, TX 77401

District Telephone Number - (713) 864-5466

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended May 31, 2019	Expense Reimbursements for the year ended May 31, 2019	Title
Barbara Benson	11/18 11/22 (Elected)	\$ 3,750	\$ 2,735	President
Victoria Hawkins	11/18 11/22 (Elected)	\$ 1,050	\$ 187	First Vice President
Lenora Flores	11/18 11/22 (Elected)	\$ 5,250	\$ 1,822	Second Vice President
Earlinda Trujillo	11/16 11/20 (Elected)	\$ 6,450	\$ 862	Secretary
Dan Young	05/17 11/20 (Appointed)	\$ 4,350	\$ 2,701	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): July 9, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 10, 2003. Fees of Office are the amounts paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**NORTHWEST HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 23
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2019**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended May 31, 2019</u>	<u>Title</u>
Strawn & Richardson, P.C.	08/01/99	\$ 70,139 \$ 62,738 \$ 51	General Counsel Bond Counsel Delinquent Tax Attorney
McCall Gibson Swedlund Barfoot PLLC	06/08/89	\$ 16,350 \$ 900	Auditor Bond Related
Myrtle Cruz, Inc.	Prior to 06/01/83	\$ 21,989 \$ 2,500	Bookkeeper Bond Related
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	12/13/17	\$ -0-	Delinquent Tax Attorney
JNS Engineers, LLC	01/14/88	\$ 578,268	Engineer
Masterson Advisors LLC	04/24/18	\$ 66,555	Financial Advisor
Mary Jarmon	04/14/11	\$ -0-	Investment Officer
Hays Utility South Corporation	07/11/80	\$ 400,609	Operator
Bob Leared Interests	08/16/79	\$ 19,206 \$ 2,500	Tax Assessor/ Collector Bond Related

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN