

OFFICIAL STATEMENT DATED MAY 4, 2020

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

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

NEW ISSUE-Book-Entry Only

Insured Rating (BAM): S&P “AA” (stable outlook)
Underlying Rating: Moody’s “A2”
See “MUNICIPAL BOND RATING” and
“MUNICIPAL BOND INSURANCE” herein.

CINCO SOUTHWEST MUNICIPAL UTILITY DISTRICT NO. 3

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

\$3,285,000
UNLIMITED TAX REFUNDING BONDS
SERIES 2020

\$2,775,000
UNLIMITED TAX PARK REFUNDING BONDS
SERIES 2020

Dated Date: June 1, 2020

Due: September 1, as shown on the inside cover

The \$3,285,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Series 2020 Bonds”) and the \$2,775,000 Unlimited Tax Park Refunding Bonds, Series 2020 (the “Series 2020 Park Bonds”) are obligations solely of Cinco Southwest Municipal Utility District No. 3 (the “District”) and are not obligations of the City of Houston, the State of Texas, Fort Bend County, or any entity other than the District. The Series 2020 Bonds and the Series 2020 Park Bonds are collectively referred to herein as the “Bonds.”

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See “INVESTMENT CONSIDERATIONS.”

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”) upon surrender of the Bonds for payment. Interest on the Bonds accrues from June 1, 2020, and is payable each September 1 and March 1, commencing September 1, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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



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

See “MATURITY SCHEDULES” on the inside cover

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Underwriter’s Counsel. See “LEGAL MATTERS.” Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about June 11, 2020.

SAMCO CAPITAL

MATURITY SCHEDULES

\$3,285,000 SERIES 2020 BONDS

<u>Due</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (c)</u>	<u>CUSIP</u> <u>Number (b)</u>	<u>Due</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (c)</u>	<u>CUSIP</u> <u>Number (b)</u>
2021	\$ 190,000	4.000 %	1.610 %	17239D LD8	2024	\$ 195,000	4.000 %	1.890 %	17239D LG1
2022	190,000	4.000	1.720	17239D LE6	2025	195,000	4.000	2.000	17239D LH9
2023	195,000	4.000	1.810	17239D LF3	2026	200,000	4.000	2.050	17239D LJ5

\$390,000 Term Bonds due September 1, 2028 (a), 17239D LK2 (b), 2.000% Interest Rate, 2.280% Yield (c)

\$370,000 Term Bonds due September 1, 2030 (a), 17239D LL0 (b), 2.250% Interest Rate, 2.470% Yield (c)

\$360,000 Term Bonds due September 1, 2032 (a), 17239D LM8 (b), 2.500% Interest Rate, 2.670% Yield (c)

\$345,000 Term Bonds due September 1, 2034 (a), 17239D LN6 (b), 2.500% Interest Rate, 2.810% Yield (c)

\$655,000 Term Bonds due September 1, 2038 (a), 17239D LP1 (b), 3.000% Interest Rate, 2.970% Yield (c)

\$2,775,000 SERIES 2020 PARK BONDS

<u>Due</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (c)</u>	<u>CUSIP</u> <u>Number (b)</u>	<u>Due</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (c)</u>	<u>CUSIP</u> <u>Number (b)</u>
2021	\$ 165,000	4.000 %	1.610 %	17239D LQ9	2024	\$ 170,000	4.000 %	1.890 %	17239D LT3
2022	165,000	4.000	1.720	17239D LR7	2025	165,000	4.000	2.000	17239D LU0
2023	165,000	4.000	1.810	17239D LS5	2026	165,000	4.000	2.050	17239D LV8

\$330,000 Term Bonds due September 1, 2028 (a), 17239D LW6 (b), 2.000% Interest Rate, 2.280% Yield (c)

\$320,000 Term Bonds due September 1, 2030 (a), 17239D LX4 (b), 2.250% Interest Rate, 2.470% Yield (c)

\$305,000 Term Bonds due September 1, 2032 (a), 17239D LY2 (b), 2.500% Interest Rate, 2.670% Yield (c)

\$285,000 Term Bonds due September 1, 2034 (a), 17239D LZ9 (b), 2.500% Interest Rate, 2.810% Yield (c)

\$540,000 Term Bonds due September 1, 2038 (a), 17239D MA3 (b), 3.000% Interest Rate, 2.970% Yield (c)

- (a) Bonds maturing on or after September 1, 2027, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2026, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

TABLE OF CONTENTS

MATURITY SCHEDULES	1	Maintenance Tax	33
USE OF INFORMATION IN OFFICIAL STATEMENT	4	Historical Tax Rate Distribution	33
SALE AND DISTRIBUTION OF THE BONDS	5	Additional Penalties	33
The Underwriter	5	Tax Exemptions	33
Prices and Marketability	5	Historical Tax Collections	34
Securities Laws	5	Tax Roll Information	34
OFFICIAL STATEMENT SUMMARY	6	Principal Taxpayers	34
SELECTED FINANCIAL INFORMATION (UNAUDITED) .	10	Tax Adequacy for Debt Service.....	35
PLAN OF FINANCING	11	TAXING PROCEDURES	35
Purpose.....	11	Authority to Levy Taxes	35
Refunded Bonds.....	12	Property Tax Code and County-Wide Appraisal District.....	35
Sources and Uses of Funds.....	13	Property Subject to Taxation by the District.....	35
Escrow Agreements and Defeasance of Refunded Bonds.....	13	Tax Abatement.....	36
THE BONDS	14	Valuation of Property for Taxation.....	36
Description.....	14	District and Taxpayer Remedies	37
Method of Payment of Principal and Interest.....	14	Levy and Collection of Taxes.....	37
Source of Payment	14	Rollback of Operation and Maintenance Tax Rate	38
Funds.....	14	District’s Rights in the Event of Tax Delinquencies	39
Redemption Provisions	14	INVESTMENT CONSIDERATIONS	39
Authority for Issuance.....	16	Infectious Disease Outlook (COVID-19).....	39
Registration and Transfer	16	Potential Effects of Oil Price Declines on the Houston Area.....	40
Lost, Stolen or Destroyed Bonds.....	17	Recent Extreme Weather Events; Hurricane Harvey	40
Replacement of Paying Agent/Registrar	17	Specific Flood Type Risks	40
Issuance of Additional Debt.....	17	General	41
Annexation by the City of Houston.....	17	Overlapping Debt.....	41
Strategic Partnership Agreement.....	18	Tax Collections Limitations and Foreclosure Remedies	41
Consolidation	18	Registered Owners’ Remedies and Bankruptcy Limitations.....	42
Remedies in Event of Default	18	Future Debt	42
Legal Investment and Eligibility to Secure		Environmental Regulation	43
Public Funds in Texas.....	19	Marketability of the Bonds	45
Defeasance	19	Changes in Tax Legislation	45
BOOK-ENTRY-ONLY SYSTEM	20	Continuing Compliance with Certain Covenants.....	45
CINCO RANCH DEVELOPMENT	21	Risk Factors Related to the Purchase of Municipal	
THE DISTRICT	21	Bond Insurance.....	45
General.....	21	MUNICIPAL BOND RATING	46
Description and Location	22	MUNICIPAL BOND INSURANCE	46
Land Use.....	22	Municipal Bond Insurance Policy.....	46
Status of Development.....	23	Build America Mutual Assurance Company	46
MANAGEMENT OF THE DISTRICT	23	VERIFICATION OF MATHEMATICAL	
Board of Directors.....	23	CALCULATIONS	47
District Consultants.....	23	LEGAL MATTERS	48
WATER, SEWER AND DRAINAGE	24	Legal Proceedings.....	48
The Master District Contract.....	24	No Material Adverse Change.....	48
Master District Facilities	25	No-Litigation Certificate.....	48
Water Distribution, Wastewater Collection and Storm		TAX MATTERS	48
Drainage Facilities	25	Tax Accounting Treatment of Original Issue Discount Bonds ..	49
Flood Protection and Drainage.....	26	Qualified Tax-Exempt Obligations	50
Atlas 14	26	PREPARATION OF OFFICIAL STATEMENT	50
Subsidence and Conversion to Surface Water Supply.....	26	Sources and Compilation of Information.....	50
Regulation	27	Financial Advisor.....	50
Water and Wastewater Operations	28	Consultants	50
THE ROADS	29	Updating the Official Statement	51
THE RECREATIONAL FACILITIES	29	Certification of Official Statement.....	51
FINANCIAL INFORMATION CONCERNING THE		CONTINUING DISCLOSURE OF INFORMATION	51
DISTRICT (UNAUDITED)	30	Annual Reports	51
Investments of the District	30	Specified Event Notices.....	52
Outstanding Bonds.....	31	Availability of Information from the MSRB.....	52
Debt Service Requirements.....	31	Limitations and Amendments.....	52
Estimated Overlapping Debt.....	32	Compliance With Prior Undertakings.....	53
Overlapping Taxes	32	MISCELLANEOUS	53
TAX DATA	33	APPENDIX A – Independent Auditor’s Report and Financial	
Debt Service Tax.....	33	Statements of the District for the fiscal year	
Contract Tax.....	33	ended May 31, 2019	
		APPENDIX B – Specimen Municipal Bond Insurance Policy	

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 representations 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, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

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

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

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Series 2020 Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$3,309,518.53 (representing the par amount of the Series 2020 Bonds of \$3,285,000.00, plus a net premium on the Series 2020 Bonds of \$53,485.55, less an Underwriter’s discount of \$28,967.02) plus accrued interest. The Underwriter’s obligation is to purchase all of the Series 2020 Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds”.

The Series 2020 Park Bonds are also being purchased by the Underwriter pursuant to the Bond Purchase Agreement at a price of \$2,795,605.52 (representing the par amount of the Series 2020 Park Bonds of \$2,775,000.00 plus a net premium on the Series 2020 Park Bonds of \$45,617.60, less an Underwriter’s discount of \$25,012.08) plus accrued interest. The Underwriter’s obligation is to purchase all of the Series 2020 Park Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

Prices and Marketability

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

INFECTIOUS DISEASE OUTLOOK (COVID-19)

General...

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 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 and is working with local, state, and national agencies 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.

HURRICANE HARVEY

General...

The greater Houston area, including Fort Bend County, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

Impact on District...

According to Inframark LLC (the “Operator”) and BGE, Inc. (the “Engineer”), the Master District’s (as defined herein) water, wastewater and drainage system did not sustain any material damage and there was no interruption of water and sewer service during the Hurricane Harvey event. Further, the District did not receive any reports that any homes or other improvements within the District experienced structural flooding or other material damage as a result of Hurricane Harvey. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey.”

THE DISTRICT

<i>Description...</i>	The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (“TCEQ”), on February 9, 2007, and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District consists of approximately 676 acres of land. See “THE DISTRICT.”
<i>Location...</i>	The District is located approximately 25 miles west of the central downtown business district of the City of Houston, Texas in Fort Bend County. The District lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. Access to the District is provided via Interstate Highway 10 West and U.S. Highway 59 South to Texas State Highway 99 (the “Grand Parkway”), a limited access state highway, and the Westpark Toll Road. See “THE DISTRICT.”
<i>Cinco Southwest...</i>	The District is one of four municipal utility districts (the “Cinco Southwest MUDs”) collectively comprising approximately 2,390 acres referred to herein as Cinco Southwest. Cinco Southwest is an extension of the Cinco Ranch development, which covers approximately 5,300 adjacent acres and includes more than 10,000 single-family residential homes. See “CINCO RANCH DEVELOPMENT.”
<i>Status of Development...</i>	Development of the District consists of 1,718 single-family residential lots on approximately 554 acres. As of March 2020, there were 1,718 completed and occupied homes in the District. Homes constructed within the District have an average market value of approximately \$345,000. The estimated population in the District is 6,013, based upon 3.5 persons per occupied single-family residence. Approximately 20 acres have been developed for commercial purposes and approximately 27 acres have been developed as school sites, on which two elementary schools have been constructed. Commercial development within the District includes various retail establishments, restaurants, dental offices, nail salons, a fitness center and a day care facility. In addition, approximately 19 acres of recreation sites and approximately 56 undevelopable acres (drainage and pipeline easements, street rights-of-way and utility sites) are located in the District. See “THE DISTRICT” —Land Use—Status of Development.”
<i>Water and Wastewater...</i>	<p>Cinco Southwest Municipal Utility District No. 1 serves as the master district (the “Master District”), and provides regional water, sanitary sewer, storm sewer, park, road and other facilities necessary to serve Cinco Southwest (the “Service Area”) (collectively referred to as the “Master District Facilities”). Cinco Southwest has contracted with each of the Cinco Southwest MUDS to construct and provide service from the Master District Facilities.</p> <p>The Master District owns and operates the Master District Facilities. Each of the Cinco Southwest MUDs, including the District owns and operates the internal utilities within their boundaries. See “WATER, SEWER, AND DRAINAGE—Master District Contract.”</p>
<i>The Roads...</i>	The Collector Road System (the “Roads”) serves the residents of the District by providing access to the major thoroughfares within Cinco Southwest and the surrounding area. The Roads are comprised of Cinco Terrace Drive, Pine Hills Drive, and Ranch Point Drive. They function as collectors by conveying the residents of the District to the major thoroughfares of Fry Road and Cinco Ranch Boulevard. The District has financed portions of the Roads and may finance additional portions in the future.
<i>Payment Record...</i>	The District has previously issued \$17,520,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities (the “Water, Sewer and Drainage Bonds”) in four series, \$3,845,000 principal amount of unlimited tax bonds for roads and related improvements (the “Road Bonds”) in two series, \$3,965,000 principal amount of unlimited tax bonds for park facilities (the “Park Bonds”) in two series, \$9,225,000 principal amount of unlimited tax bonds for refunding Water, Sewer and Drainage Bonds in one series and \$2,955,000 principal amount of unlimited tax bonds for refunding Road Bonds in one series, of which \$19,365,000 collectively remains outstanding (the “Outstanding Bonds”). The District has never defaulted on its debt obligations. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

THE BONDS

<i>Description...</i>	<p>\$3,285,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Series 2020 Bonds”) and \$2,775,000 Unlimited Tax Park Refunding Bonds, Series 2020 (the “Series 2020 Park Bonds”) are being issued pursuant to separate resolutions authorizing the issuance of the each such series of Bonds adopted by the District’s Board of Directors (the “Board”) as fully registered bonds (the “Bond Resolutions”). The Series 2020 Bonds and the Series 2020 Park Bonds are collectively referred to herein as the “Bonds.” The Series 2020 Bonds are scheduled to mature as serial bonds on September 1 in each of the years 2021 through 2026, both inclusive, and as term bonds on September 1 in each of the years 2028, 2030, 2032, 2034 and 2038 (the “ Series 2020 Term Bonds”). The Series 2020 Park Bonds are scheduled to mature as serial bonds on September 1 in each of the years 2021 through 2026, both inclusive, and as term bonds on September 1 in each of the years 2028, 2030, 2032, 2034 and 2038 (the “Series 2020 Park Term Bonds”). The Series 2020 Term Bonds and the Series 2020 Park Term Bonds are collectively referred to herein as the “Term Bonds.” The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from June 1, 2020, and is payable September 1, 2020, and each March 1 and September 1 thereafter, until the earlier of maturity or redemption. See “THE BONDS.”</p>
<i>Book-Entry-Only System...</i>	<p>The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each series of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”</p>
<i>Redemption...</i>	<p>Bonds maturing on or after September 1, 2027, are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2026, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”</p>
<i>Use of Proceeds...</i>	<p>Proceeds from the sale of the Bonds, together with lawfully available funds, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund \$5,960,000 of the District’s Outstanding Bonds in order to achieve net savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$13,405,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”</p>
<i>Authority for Issuance...</i>	<p>The Series 2020 Bonds are the second series of refunding bonds issued out of an aggregate of \$105,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of constructing water, sewer and drainage facilities and for refunding water, sewer and drainage bonds and the Series 2020 Park Bonds are the first series of park refunding bonds issued. The Bonds are issued by the District pursuant to: the terms and conditions of the Bond Resolutions; bond elections held in the District; Article XVI, Section 59 of the Texas Constitution; Chapter 1207 of the Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; City of Houston Ordinance 97-416; and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance” and “—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”</p>
<i>Source of Payment...</i>	<p>Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Fort Bend County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”</p>

*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 its municipal bond rating of "AA" (stable outlook) to each 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") for each issue. Moody's Investors Service ("Moody's") has assigned an underlying rating of "A2" to the Bonds. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND INSURANCE," "MUNICIPAL BOND RATING" and "APPENDIX B."

*Qualified Tax-Exempt
Obligations...*

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS—Qualified Tax-Exempt Obligations."

Bond Counsel...

Allen Boone Humphries Robinson LLP, Houston, Texas. See "MANAGEMENT OF THE DISTRICT," "LEGAL MATTERS" and "TAX MATTERS."

Financial Advisor...

Masterson Advisors LLC, Houston, Texas. See "MANAGEMENT OF THE DISTRICT."

Underwriter's Counsel...

McCall, Parkhurst & Horton L.L.P., Houston, Texas.

Paying Agent/Registrar...

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS—Method of Payment of Principal and Interest."

Escrow Agent...

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "PLAN OF FINANCING—Defeasance of Refunded Bonds."

Verification Agent...

Public Finance Partners LLC, Rockford, Minnesota. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned "INVESTMENT CONSIDERATIONS."

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$651,867,437	(a)
Gross Direct Debt Outstanding	\$19,465,000	(b)
Estimated Overlapping Debt	<u>66,476,038</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$85,941,038	
Ratio of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation	2.99%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	13.18%	
Funds Available for Debt Service as of April 27, 2020:		
Road Debt Service Funds.....	\$ 361,243	(d)
Water, Sewer and Drainage and Parks Debt Service Funds.....	<u>1,493,817</u>	(d) (e)
Total Debt Service Funds Available	\$1,855,060	
Operating Funds Available as of April 27, 2020.....	\$7,758,750	(f)
Capital Projects Park Funds Available as of April 27, 2020	\$76,732	(g)
Contract Tax Fund as of April 27, 2020.....	\$1,698,299	
2019 Debt Service Tax Rate	\$0.245	
2019 Contract Tax Rate.....	0.450	
2019 Maintenance and Operations Tax Rate	<u>0.235</u>	
2019 Total Tax Rate	\$0.930	
Average Annual Debt Service Requirement (2020-2038).....	\$1,329,955	(h)
Maximum Annual Debt Service Requirement (2021).....	\$1,583,694	(g)
Tax Rates Required to Pay Average Annual Debt Service (2020-2038) at a 95% Collection Rate		
Based upon 2019 Certified Taxable Assessed Valuation	\$0.22	(i)
Tax Rates Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate		
Based upon 2019 Certified Taxable Assessed Valuation	\$0.26	(i)
Status of Development as of March 2020 (j):		
Completed Homes (1,718 occupied).....	1,718	
Commercial (i)		
Estimated Population	6,013	(k)

- (a) As certified by the Fort Bend Central Appraisal District (the "Appraisal District") See "TAXING PROCEDURES."
- (b) Includes the Bonds and the Remaining Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (d) Although all of the District's debt, including the Remaining Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue will be allocated to the Bonds and Remaining Outstanding Water, Sewer and Drainage or Park Bonds, and a pro rata portion will be allocated to the Outstanding Road Bonds. See "NANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds." The Water, Sewer and Drainage and Parks Debt Service Fund is not pledged to the Outstanding Road Bonds nor will funds deposited into the Road Service Fund be pledged to the Bonds or Remaining Outstanding Water, Sewer and Drainage or Park Bonds. The District has adopted a total 2019 tax rate of \$0.930 per \$100 of assessed valuation with \$0.245 allocated to debt service, \$0.235 allocated to maintenance and operations and \$0.45 allocated as Contract Tax. Of the 2019 debt service tax rate of \$0.245, \$0.035 is allocated to Road Bonds and \$0.210 is allocated to Water, Sewer and Drainage and Park Bonds.
- (e) The District will contribute \$37,000 to the Series 2020 Bonds and \$25,000 to the Series 2020 Park Bonds.
- (f) \$20,000 will be contributed to the Series 2020 Park Bonds.
- (g) As of the date of pricing, the balance of the Capital Projects Park Fund was \$76,797.18, all of which will be contributed to the Series 2020 Park Bonds at closing.
- (h) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (i) See "TAX DATA—Tax Adequacy for Debt Service."
- (j) See "THE DISTRICT—Status of Development"
- (k) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

CINCO SOUTHWEST MUNICIPAL UTILITY DISTRICT NO. 3 (A political subdivision of the State of Texas located within Fort Bend County)

\$3,285,000
UNLIMITED TAX REFUNDING BONDS
SERIES 2020

\$2,775,000
UNLIMITED TAX PARK REFUNDING BONDS
SERIES 2020

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Cinco Southwest Municipal Utility District No. 3 (the "District") of its \$3,285,000 Unlimited Tax Refunding Bonds, Series 2020 (the "Series 2020 Bonds") and its \$2,775,000 Unlimited Tax Park Refunding Bonds Series 2020 (the "Series 2020 Park Bonds"). The Series 2020 Bonds and the Series 2020 Park Bonds are collectively referred herein to as the "Bonds."

The Bonds are issued by the District pursuant to separate resolutions authorizing the issuance of the Series 2020 Bonds and the Series 2020 Park Bonds (the "Bond Resolutions") adopted by the Board of Directors of the District (the "Board"); Article XVI, Section 59 of the Texas Constitution; Chapter 1207 of the Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; an election held within the District; City of Houston Ordinance 97-416; and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

PLAN OF FINANCING

Purpose

At elections held within the District, voters of the District authorized the issuance of \$105,000,000 principal amount of unlimited tax bonds for the purposes of purchasing and constructing a water, wastewater and storm drainage system and for refunding such bonds, \$20,000,000 principal amount of unlimited tax road bonds for the purpose of constructing road facilities and refunding road bonds and \$25,000,000 principal amount of unlimited tax park bonds for the purpose of constructing park facilities and refunding park bonds. The District has issued \$17,520,000 principal amount of unlimited tax bonds, \$3,845,000 principal amount of unlimited tax road bonds, \$3,965,000 principal amount of unlimited tax park bonds, \$9,225,000 principal amount of unlimited tax refunding bonds and \$2,955,000 principal amount of unlimited tax road refunding bonds. The District currently has \$19,365,000 principal amount of bonds outstanding (the "Outstanding Bonds").

The proceeds of the Bonds, together with lawfully available funds, will be used to currently refund portions of the District's Unlimited Tax Bonds, Series 2012A; Unlimited Tax Park Bonds, Series, 2012B; Unlimited Tax Bonds, Series 2013; and Unlimited Tax Park Bonds, Series 2013A totaling \$5,960,000 in principal amount (the "Refunded Bonds") in order to achieve a net savings in the District's debt service expense. The proceeds will also be used to pay the costs of issuing the Bonds. See "Sources and Uses of Funds" in this section. A total of \$13,405,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds").

Refunded Bonds

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

<u>Maturity Date</u>	<u>Series 2012A</u>	<u>Series 2012B Park</u>	<u>Series 2013</u>	<u>Series 2013A Park</u>
2021	\$ 65,000	\$ 80,000	\$ 115,000	\$ 80,000
2022	65,000	80,000	115,000	80,000
2023	65,000	80,000	115,000	80,000
2024	65,000	80,000	115,000	80,000
2025	65,000	75,000	115,000	80,000
2026	65,000	75,000	115,000	80,000
2027	65,000	75,000	115,000	80,000
2028	65,000	75,000	110,000	80,000
2029	65,000	75,000	110,000	80,000
2030	65,000	75,000	110,000	80,000
2031	65,000	75,000	110,000	80,000
2032	65,000	75,000	110,000	75,000
2033	65,000	75,000	110,000	75,000
2034	65,000	75,000	110,000	75,000
2035	65,000	75,000	110,000	75,000
2036	65,000	75,000	110,000	75,000
2037	65,000	75,000	110,000	75,000
2038	65,000	75,000	110,000	75,000
	<u>\$ 1,170,000</u>	<u>\$ 1,370,000</u>	<u>\$ 2,015,000</u>	<u>\$ 1,405,000</u>
Redemption Date	June 12, 2020	June 12, 2020	September 1, 2020	September 1, 2020

The Refunded Bonds will be redeemed on the date shown above, the earliest redemption date allowable under the resolutions authorizing issuance of the Refunded Bonds.

Sources and Uses of Funds

The proceeds derived from the sale of the Series 2020 Bonds, exclusive of accrued interest, and other available funds of the District, will be applied as follows:

Sources of Funds:	
Principal Amount of the Bonds	\$3,285,000.00
Plus: Net Premium on the Bonds.....	53,485.55
Plus: Transfer from Debt Service Fund	37,000.00
Total Sources of Funds.....	\$3,375,485.55
Uses of Funds:	
Deposit to Escrow Fund.....	\$3,238,331.77
Issuance Expenses and Underwriters' Discount (a).....	137,153.78
Total Uses of Funds	\$3,375,485.55

The proceeds derived from the sale of the Series 2020 Park Bonds, exclusive of accrued interest, and other available funds of the District, will be applied as follows:

Sources of Funds:	
Principal Amount of the Bonds	\$2,775,000.00
Plus: Net Premium on the Bonds.....	45,617.60
Plus: Transfer from Park Capital Projects Fund	76,797.18
Plus: Transfer from Operating Fund	20,000.00
Plus: Transfer from Debt Service Fund	25,000.00
Total Sources of Funds.....	\$2,942,414.78
Uses of Funds:	
Deposit to Escrow Fund.....	\$2,817,632.42
Issuance Expenses and Underwriters' Discount (a).....	124,782.36
Total Uses of Funds	\$2,942,414.78

(a) Includes municipal bond insurance premium.

Escrow Agreements and Defeasance of Refunded Bonds

The Refunded Bonds, and the interest due thereon, are to be paid on each principal or Interest Payment Date and on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A. as escrow agent (the "Escrow Agent").

Each of the Bond Resolutions provides that the District and the Escrow Agent will enter into an escrow agreement (the "Escrow Agreement") to provide for the discharge and defeasance of the related series of Refunded Bonds. Each of the Bond Resolutions further provides that from the proceeds of the sale of the Bonds and other available funds of the District, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the related series of Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the "Escrow Fund") and used to purchase United States Treasury Obligations (the "Escrowed Obligations"). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Escrow Agent and the Underwriter that the Escrowed Obligations are sufficient in principal amount and are scheduled to mature at such times and to yield interest in such amounts, together with uninvested funds, if any, in the Escrow Fund, to pay, when due, the principal of and interest on the related series of Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS." Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the related series of Refunded Bonds and will not be available to pay principal of and interest on the Bonds. By the deposit of the Escrowed Obligations and cash, if any, with the Escrow Agent pursuant to the Escrow Agreements, and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior resolutions of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited and invested in the Escrow Fund will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

THE BONDS

Description

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

Method of Payment of Principal and Interest

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

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

Source of Payment

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

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

Funds

In the Bond Resolutions, the Water, Sewer and Drainage and Parks Debt Service Fund is confirmed, and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Resolutions shall be deposited, as collected, in such fund.

The District also maintains a Road Debt Service Fund that is not pledged to the Bonds. Funds in the Road Debt Service Fund are not available to pay principal and interest on the Bonds.

Accrued interest on the Bonds shall be deposited into the Water, Sewer and Drainage and Parks Debt Service Fund upon receipt. Any monies remaining will be used as described in the Bond Resolutions or ultimately transferred to the Water, Sewer and Drainage and Parks Debt Service Fund. See “PLAN OF FINANCING—Sources and Uses of Funds”.

Redemption Provisions

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2027, prior to their scheduled maturities, in whole or from time-to-time in part, in integral multiples of \$5,000 on September 1, 2026, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption.

Mandatory Redemption: The Series 2020 Term Bonds due on September 1 in each of the years 2028, 2030, 2032, 2034 and 2038 (the “Series 2020 Term Bonds”) and the Series 2020 Park Term Bonds due on September 1 in each of the years 2028, 2030, 2032, 2034 and 2038 (the “Series 2020 Park Term Bonds”), (collectively the “Term Bonds”) are also subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on September 1 in the years (“Mandatory Redemption Dates”) and in the amounts set forth below, subject to proportionate reduction at a redemption price of par plus accrued interest to the date of redemption:

SERIES 2020 TERM BONDS

\$390,000 Term Bonds		\$370,000 Term Bonds		\$360,000 Term Bonds	
Due September 1, 2028		Due September 1, 2030		Due September 1, 2032	
Mandatory	Principal	Mandatory	Principal	Mandatory	Principal
Redemption Date	Amount	Redemption Date	Amount	Redemption Date	Amount
2027	\$ 200,000	2029	\$ 185,000	2031	\$ 180,000
2028 (maturity)	190,000	2030 (maturity)	185,000	2032 (maturity)	180,000
\$345,000 Term Bonds		\$655,000 Term Bonds			
Due September 1, 2034		Due September 1, 2038			
Mandatory	Principal	Mandatory	Principal		
Redemption Date	Amount	Redemption Date	Amount		
2033	\$ 175,000	2035	\$ 170,000		
2034 (maturity)	170,000	2036	165,000		
		2037	160,000		
		2038 (maturity)	160,000		

SERIES 2020 PARK TERM BONDS

\$330,000 Term Bonds		\$320,000 Term Bonds		\$305,000 Term Bonds	
Due September 1, 2028		Due September 1, 2030		Due September 1, 2032	
Mandatory	Principal	Mandatory	Principal	Mandatory	Principal
Redemption Date	Amount	Redemption Date	Amount	Redemption Date	Amount
2027	\$ 165,000	2029	\$ 160,000	2031	\$ 155,000
2028 (maturity)	165,000	2030	160,000	2032	150,000
\$285,000 Term Bonds		\$540,000 Term Bonds			
Due September 1, 2034		Due September 1, 2038			
Mandatory	Principal	Mandatory	Principal		
Redemption Date	Amount	Redemption Date	Amount		
2033	\$ 145,000	2035	\$ 140,000		
2034 (maturity)	140,000	2036	135,000		
		2037	135,000		
		2038 (maturity)	130,000		

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

If less 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 less 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).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like series, maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

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 an election held within the District, the voters of the District authorized the issuance of an aggregate of \$105,000,000 principal amount of unlimited tax bonds for the purpose of constructing, water, wastewater and storm drainage facilities and refunding such bonds and \$25,000,000 principal amount of unlimited tax bonds for the purpose of constructing parks and recreational facilities. The Bonds are being issued pursuant to such authorizations. See "Issuance of Additional Debt" below and "INVESTMENT CONSIDERATIONS—Future Debt."

The Bonds are issued by the District pursuant to: elections held within the District; the terms and conditions of the Bond Resolutions; Article XVI, Section 59 of the Texas Constitution; Chapter 1207 of the Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; City of Houston Ordinance 97-416 and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

Registration and Transfer

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

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

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

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

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

Lost, Stolen or Destroyed Bonds

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

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

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

At bond elections held within the District, voters of the District have authorized the issuance of \$105,000,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring a water, sewer and drainage system, and refunding such bonds, \$25,000,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring parks and recreational facilities and for refunding such bonds and \$20,000,000 principal amount of unlimited tax bonds for constructing roads and related improvements and for refunding such bonds, and could authorize additional amounts. The outstanding principal amount of park bonds may not exceed an amount equal to one percent (1%) of the value of the taxable property in the District at the time of issuance of the bonds.

The District currently has \$87,385,000 principal amount of unlimited tax bonds for constructing and/or acquiring water, sewer and drainage facilities (and for refunding such bonds) authorized but unissued, \$16,090,000 principal amount of unlimited tax bonds authorized but unissued for roads and related improvements (and for refunding such bonds), and \$21,035,000 principal amount of unlimited tax bonds for constructing and/or acquiring parks and recreational facilities authorized but unissued. After the issuance of the Bonds, the District will have \$87,285,000 principal amount of unlimited tax bonds for water, sewer and drainage system bonds and for refunding such bonds authorized but unissued and \$21,035,000 principal amount of unlimited tax bonds for constructing and/or acquiring parks and recreational facilities authorized but unissued. See "INVESTMENT CONSIDERATIONS—Future Debt."

Annexation by the City of Houston

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

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

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

Strategic Partnership Agreement

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

The SPA further provides that the City may not annex the District for "full purposes" until 30 years from the effective date of the SPA (December 14, 2009). Prior to the full purpose annexation of the District, property within the District is not subject to the City's ad valorem property tax and District residents are not allowed to vote in City elections.

Consolidation

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolutions, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolutions, 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 Resolutions. Except for mandamus, the Bond Resolutions do 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 Resolutions may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning Depository Trust Company (“DTC”) and DTC’s book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedure” of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

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

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

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

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

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

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

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

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

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

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

CINCO RANCH DEVELOPMENT

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

THE DISTRICT

General

The District is a municipal utility district created by an order of the TCEQ dated February 9, 2007. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1207 of the Government Code.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; 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 and roads. The District is also authorized to develop parks and recreational facilities and related improvements, including the issuance of bonds payable from taxes for such purposes. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts or municipalities. See "THE BONDS—Issuance of Additional Debt."

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 the District lies, the District is required to observe certain requirements of the City 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 roads; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City 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 "WATER, SEWER AND DRAINAGE—Regulation."

Description and Location

The District consists of approximately 676 acres of land. The District is located in Fort Bend County approximately 25 miles west of the central downtown business district of the City of Houston. The District lies wholly within the extraterritorial jurisdiction of the City of Houston and within the boundaries of Katy Independent School District. Access to the District is currently provided by Interstate Highway 10 West or U.S. Highway 59 South to Texas State Highway 99 (the “Grand Parkway”), a limited access state highway, and via the Westpark Toll Road.

Land Use

The District currently includes approximately 554 acres of single-family residential lot development (1,718 lots), approximately 20 acres of commercial tracts, approximately 27 acres of school sites, approximately 19 acres of recreation sites and approximately 56 undevelopable acres (drainage and pipeline easements, street rights-of-way and utility sites). The table below represents a detailed breakdown of the current acreage and development in the District.

<u>Single-Family Residential</u>	Approximate	
	<u>Acres</u>	<u>Lots</u>
Cinco Southwest:		
Section Thirty-Five.....	22	73
Section Thirty-Seven.....	24	66
Section Thirty-Nine.....	61	105
Section Forty.....	22	66
Section Forty-Two.....	23	102
Section Forty-Three.....	19	59
Section Forty-Four.....	21	80
Section Forty-Five.....	14	30
Section Forty-Six.....	18	52
Section Forty-Seven.....	21	61
Section Fifty-One.....	41	91
Section Fifty-Two.....	20	66
Section Fifty-Four.....	48	98
Section Fifty-Five.....	19	73
Section Fifty-Six.....	30	68
Section Fifty-Eight.....	18	61
Section Fifty-Nine.....	13	50
Section Sixty.....	15	54
Section Sixty-One.....	4	10
Section Sixty-Two.....	14	71
Section Sixty-Five.....	19	73
Section Sixty-Six.....	16	70
Section Sixty-Seven.....	9	42
Section Sixty-Eight.....	16	84
Section Sixty-Nine.....	7	26
Section Seventy.....	13	62
Section Seventy-Two.....	7	25
Subtotal.....	554	1,718
<i>Commercial</i>	20	-
<i>School Sites</i>	27	-
<i>Recreation</i>	19	-
<i>Future Development</i>	-	-
<i>Non-Developable (a)</i>	56	-
	676	1,718

(a) Includes public rights-of-way, detention, open spaces, easements and utility sites within the single-family residential development.

Status of Development

Development of the District consists of 1,718 single-family residential lots on approximately 554 acres. Homes constructed within the District have an average market value of approximately \$345,000. As of March 2020, there were 1,718 completed homes in the District (1,718 occupied). The estimated population in the District is 6,013, based upon 3.5 persons per occupied single-family residence. Approximately 20 acres have been developed for commercial purposes and approximately 27 acres have been developed as a school site, on which two elementary schools have been constructed. Commercial development within the District includes various retail establishments, restaurants, dental offices, nail salons, a fitness center and a day care facility.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms and elections are held in May in even numbered years only. All of the Board members reside within the District. After the candidate filing deadline, the District had only received three candidate applications for the May, 2020 Directors election; therefore, under Texas law, the District adopted an order cancelling the election and declaring Directors Blake, Berry, and McLarty, elected to office for terms beginning May, 2020, and ending, May, 2024. 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>
James K. Blake	President	May 2024
David Berry	Vice President	May 2024
Kristina Bozoarth	Secretary	May 2022
Richard McLarty	Assistant Secretary	May 2024
Vacant	Assistant Vice President	May 2022

District Consultants

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

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

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

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

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

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

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

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

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

WATER, SEWER AND DRAINAGE

The Master District Contract

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

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

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

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

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

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

Master District Facilities

Water Supply: The water supply facilities of the Master District currently consist of five water wells, for a total combined capacity of 7,350 gallons per minute (“gpm”) each; 2,800,000 gallons of ground storage capacity; pressure tank capacity of 80,000 gallons; booster pump capacity of 15,500 gpm; and all related appurtenances. In addition, the Master District has entered into an interconnect agreement with Fort Bend County Municipal Utility District No. 142. The interconnect is located at the intersection of Fry Road and Holton Gripp Drive. The Master District has also entered into an interconnect agreement with Fort Bend County Municipal Utility District Nos. 34 and 35. The interconnect is located on Katy-Gaston Road near the intersection with Fry Road. The major components of the Master District’s water supply system will serve approximately 6,688 equivalent single-family connections. According to the Operations Report dated March 2020, the Master District has a current reserved capacity of 7,942 connections (including 1,817 irrigation reservations) and the Cinco Southwest MUDs currently have 5,534 active connections (including 2 connections allocated to schools, which are located outside the boundaries of the Service Area).

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

Wastewater Treatment: The wastewater treatment facilities of the Master District consist of one plant with a total capacity of 1,900,000 gallons per day (“gpd”). Current wastewater treatment capacity at the Master District’s plant will serve 7,600 equivalent single-family connections. According to the Operations Report dated March 2020, the Master District has reserved capacity for 6,125 connections (excluding 1,817 irrigation connections) and the Master District was serving approximately 5,534 active connections (including 2 connections allocated to schools, which are located outside the boundaries of the Service Area).

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

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

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

Road System: In order to provide access from Interstate Highway 10 and the Grand Parkway, the Master District has extended the following major thoroughfares and created a collector thoroughfare: Cinco Ranch Boulevard, South Fry Road, Spring Green Boulevard and Cinco Terrace (collector). The major thoroughfares are 4-lane divided roads and the collector varies from 4-lane divided to 2-lane two-way traffic.

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

Master Park Facilities: The Master District provides an interconnect grade separated trail system connecting community parks and recreation facilities. This system extends along and utilizes the drainage corridors as linear parks connecting multiple neighborhood parks.

Water Distribution, Wastewater Collection and Storm Drainage Facilities

Each Cinco Southwest MUD, including the District, owns and operates the internal water distribution, wastewater collection and storm drainage lines within its respective boundaries. Internal water distribution, wastewater collection and storm drainage facilities have been constructed by the District to serve 1,718 single-family residential lots, approximately 20 acres of commercial tracts and approximately 27 acres of school sites.

Flood Protection and Drainage

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

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

Atlas 14

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas estimates for the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

Subsidence and Conversion to Surface Water Supply

The majority of the Service Area is within the boundaries of the Fort Bend Subsidence District (the “Subsidence District”), which regulates groundwater withdrawal. The Master District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District’s jurisdiction, including the areas served by the Master District. In 2005, the Texas legislature created the North Fort Bend Water Authority (the “Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Fort Bend County (including the Service Area) and a small portion of Harris County. The Authority has entered into a Water Supply Contract with the City of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The Master District and each Participant are included within the Authority’s GRP.

The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees imposed on the Master District for groundwater pumped by the Master District), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the Master District, to convert from groundwater to surface water. The Authority currently charges the Master District, and other major groundwater users a fee per 1,000 gallons based on the amount of groundwater pumped, and a fee per 1,000 gallons based on the amount, if any, of surface water received from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2025 to finance the Authority’s project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority’s GRP, beginning in the year 2014; and (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority’s GRP, beginning in the year 2025. If the Authority fails to comply with the above Subsidence District regulations, the Authority is subject to a substantial disincentive fee penalty, currently \$6.50 per 1,000 gallons (“Disincentive Fees”), imposed by the Subsidence District for any groundwater withdrawn in excess of 40% of the total annual water demand in the Authority’s GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the Master District. If the Master District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the Master District.

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

Regulation

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

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

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Water and Wastewater Operations

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. Net revenues, if any, derived from the operation of the District's water and sewer operations are not pledged to the payment of the Bonds but are available for any lawful purpose including payment of debt service on the Bonds, at the discretion and upon action of the Board. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds.

The following statement sets forth in condensed form, the General Operating Fund, as shown in the District's audited financial statements for the fiscal years ended May 31, 2016 through May 31, 2019 and an unaudited summary for the period ended January 31, 2020, prepared by the Bookkeeper. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

	6/1/2019 to 1/31/2020 (a)	Fiscal Year Ended May 31			
		2019	2018	2017	2016
Revenues					
Property Taxes	\$ 1,161,294	\$ 1,075,853	\$ 1,690,101	\$ 2,130,599	\$ 2,178,329
Water Service	388,337	529,531	480,839	484,610	498,584
Wastewater Service	296,601	417,783	462,918	466,984	453,821
Regional Water Authority Fees	917,235	1,110,276	1,006,654	894,172	857,593
Penalty and Interest	11,312	13,888	14,232	18,094	24,582
Tap Connection and Inspection Fees	-	-	-	200	35,425
Miscellaneous	7	22	-	-	-
Investment Income	87,173	141,397	71,901	22,378	5,014
Total Revenues	\$ 2,861,959	\$ 3,288,750	\$ 3,726,645	\$ 4,017,037	\$ 4,053,348
Expenditures					
Professional Fees	\$ 98,757	\$ 109,260	\$ 81,967	\$ 142,144	\$ 91,096
Contracted Services	306,590	432,898	411,867	402,014	400,380
Purchased Services	618,552	927,828	854,568	854,570	849,849
Regional Water Authority Fees	903,199	1,089,333	987,262	906,560	866,973
Repairs and Maintenance	133,294	635,052	326,852	71,672	102,140
Other	33,083	98,336	79,581	77,283	57,484
Tap Connections	-	-	-	-	20,710
Capital Outlay	-	-	-	95,578	-
Total Expenditures	\$ 2,093,475	\$ 3,292,707	\$ 2,742,097	\$ 2,549,821	\$ 2,388,632
Revenues Over (Under) Expenditures	\$ 768,484	\$ (3,957)	\$ 984,548	\$ 1,467,216	\$ 1,664,716
Fund Balance (Beginning of Year)	\$ 6,883,914	\$ 6,887,871	\$ 5,903,323	\$ 4,436,107	\$ 2,771,391
Fund Balance (End of Year)	\$ 7,652,398	\$ 6,883,914	\$ 6,887,871	\$ 5,903,323	\$ 4,436,107

(a) Unaudited. Provided by the bookkeeper.

THE ROADS

The Collector Road System (the “Roads”) serves the residents of the District by providing access to the major thoroughfares within Cinco Southwest and the surrounding area. The Roads are comprised of Cinco Terrace Drive, Pine Hills Drive, and Ranch Point Drive. They function as collectors by conveying the residents of the District to the major thoroughfares of Fry Road and Cinco Ranch Boulevard. Fort Bend County is responsible for ongoing maintenance of public roads in the District. The District has financed portions of the Roads and may finance additional portions.

In order to provide access from Interstate Highway 10 and the Grand Parkway, the Master District (defined herein) has extended the following major thoroughfares and created a collector thoroughfare: Cinco Ranch Boulevard, South Fry Road, Spring Green Boulevard and Cinco Terrace Drive (collector). The major thoroughfares are 4-lane divided roads and the collector varies from 4-lane divided to 2-lane two-way traffic.

THE RECREATIONAL FACILITIES

The Master District provides an interconnect grade separated trail system connecting community parks and recreation facilities. This system extends along and utilizes the drainage corridors as linear parks connecting multiple neighborhood parks.

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

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

All Park Construction Charges received by the Master District shall be deposited into a separate fund to be held in trust for the benefit of the Cinco Southwest MUDs and shall be used solely for the purpose of paying the capital costs of the Master District Park Facilities pursuant to the Master District Contract.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$651,867,437	(a)
Gross Direct Debt Outstanding	\$19,465,000	(b)
Estimated Overlapping Debt	<u>66,476,038</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$85,941,038	
Ratio of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation	2.99%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	13.18%	
Funds Available for Debt Service as of April 27, 2020:		
Road Debt Service Funds	\$361,243	(d)
Water, Sewer and Drainage and Parks Debt Service Funds.....	<u>\$1,493,817</u>	(d) (e)
Total Debt Service Funds Available	\$1,855,060	
Operating Funds Available as of April 27, 2020.....	\$7,758,750	(f)
Capital Projects Park Funds Available as of April 27, 2020	\$76,732	(g)
Contract Tax Fund as of April 27, 2020.....	\$1,698,299	

- (a) As certified by the Fort Bend Central Appraisal District (the "Appraisal District") See "TAXING PROCEDURES."
- (b) Includes the Bonds and the Remaining Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (d) Although all of the District's debt, including the Remaining Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue will be allocated to the Bonds and Remaining Outstanding Water, Sewer and Drainage or Park Bonds, and a pro rata portion will be allocated to the Outstanding Road Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Debt." The Water, Sewer and Drainage and Parks Debt Service Fund is not pledged to the Outstanding Road Bonds nor will funds deposited into the Road Service Fund be pledged to the Bonds or Remaining Outstanding Water, Sewer and Drainage or Park Bonds. The District has adopted a total 2019 tax rate of \$0.930 per \$100 of assessed valuation with \$0.245 allocated to debt service, \$0.235 allocated to maintenance and operations and \$0.45 allocated as Contract Tax. Of the 2019 debt service tax rate of \$0.245, \$0.035 is allocated to Road Bonds and \$0.21 is allocated to Water, Sewer and Drainage and Park Bonds.
- (e) The District will contribute \$37,000 to the Series 2020 Bonds and \$25,000 to the Series 2020 Park Bonds.
- (f) \$20,000 will be contributed to the Series 2020 Park Bonds.
- (g) As of the date of pricing, the balance of the Capital Projects Park Fund was \$76,797.18, all of which will be contributed to the Series 2020 Park Bonds at closing.

Investments of the District

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

Outstanding Bonds

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

Series	Original Principal Amount	Outstanding Bonds	Less: Refunded Bonds	Remaining Outstanding Bonds
2011	\$ 4,990,000	\$ 145,000		\$ 145,000
2011 (a)	2,905,000	85,000		85,000
2012	8,000,000	620,000		620,000
2012 (a)	940,000	35,000		35,000
2012A	1,715,000	1,235,000	\$ 1,170,000	65,000
2012B (b)	2,005,000	1,450,000	1,370,000	80,000
2013	2,815,000	2,130,000	2,015,000	115,000
2013A (b)	1,960,000	1,485,000	1,405,000	80,000
2019 (c)	9,225,000	9,225,000	-	9,225,000
2019 (d)	2,955,000	2,955,000	-	2,955,000
Total	\$ 37,510,000	\$ 19,365,000	\$ 5,960,000	\$ 13,405,000
The 2020 Bonds				3,285,000
The 2020 Park Bonds				2,775,000
The Bonds and Remaining Outstanding Bonds				<u>\$ 19,465,000</u>

- (a) Unlimited Tax Road Bonds.
 (b) Unlimited Tax Park Bonds.
 (c) Unlimited Tax Refunding Bonds.
 (d) Unlimited Tax Road Refunding Bonds.

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$5,960,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2020	\$ 1,631,272.50	\$ 115,918.13		\$ 46,137.50	\$ 46,137.50	\$ 1,561,491.88
2021	1,615,980.00	571,836.25	\$ 355,000	184,550.00	539,550.00	1,583,693.75
2022	1,601,617.50	561,673.75	355,000	170,350.00	525,350.00	1,565,293.75
2023	1,584,965.00	551,221.25	360,000	156,150.00	516,150.00	1,549,893.75
2024	1,562,222.50	540,478.75	365,000	141,750.00	506,750.00	1,528,493.75
2025	1,538,447.50	524,303.75	360,000	127,150.00	487,150.00	1,501,293.75
2026	1,510,462.50	513,068.75	365,000	112,750.00	477,750.00	1,475,143.75
2027	1,483,712.50	500,718.75	365,000	98,150.00	463,150.00	1,446,143.75
2028	1,459,952.50	483,158.75	355,000	90,850.00	445,850.00	1,422,643.75
2029	1,436,167.50	470,798.75	345,000	83,750.00	428,750.00	1,394,118.75
2030	1,418,207.50	457,238.75	345,000	75,987.50	420,987.50	1,381,956.25
2031	1,389,247.50	443,678.75	335,000	68,225.00	403,225.00	1,348,793.75
2032	1,354,687.50	425,118.75	330,000	59,850.00	389,850.00	1,319,418.75
2033	1,332,181.25	411,312.50	320,000	51,600.00	371,600.00	1,292,468.75
2034	1,309,225.00	397,506.25	310,000	43,600.00	353,600.00	1,265,318.75
2035	1,280,678.75	383,560.00	310,000	35,850.00	345,850.00	1,242,968.75
2036	1,261,138.75	368,920.00	300,000	26,550.00	326,550.00	1,218,768.75
2037	640,998.75	354,280.00	295,000	17,550.00	312,550.00	599,268.75
2038	612,921.25	339,640.00	290,000	8,700.00	298,700.00	571,981.25
Total	\$ 26,024,086.25	\$ 8,414,431.88	\$ 6,060,000	\$ 1,599,500.00	\$ 7,659,500.00	\$ 25,269,154.38

Average Annual Debt Service (2020-2038).....\$1,329,955
 Maximum Annual Debt Service (2021).....\$1,583,694

Estimated Overlapping Debt

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Fort Bend County.....	\$ 559,527,527	3/31/2020	0.92%	\$ 5,147,653
Katy ISD.....	1,752,016,959	3/31/2020	1.60%	28,032,271
Master District.....	111,995,000	3/31/2020	29.73%	33,296,114
Total Estimated Overlapping Debt.....				\$ 66,476,038
The District.....	19,465,000	(a)	100.00%	19,465,000
Total Direct and Estimated Overlapping Debt.....				\$ 85,941,038

Ratio of Direct and Overlapping Debt to:

2019 Certified Taxable Assessed Valuation of \$651,867,437..... 13.18%

(a) The Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes

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

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

	Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Fort Bend County (including Drainage District).....	0.46000
Fort Bend Emergency Services District (a).....	0.10000
Katy Independent School District.....	1.44310
Total Overlapping Tax Rate.....	\$ 2.00310
The District (b).....	0.93000
Total Tax Rate.....	\$ 2.93310

(a) Represents the highest 2019 tax rate for the emergency services districts in that service area.

(b) See “TAX DATA—Debt Service Tax,” “—Maintenance Tax,” and “—Contract Tax.”

TAX DATA

Debt Service Tax

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

Contract Tax

The Master District Facilities have been constructed and financed with proceeds from contract revenue bonds sold by the Master District. The Master District is authorized to issue Contract Revenue Bonds sufficient to complete acquisition, construction, modification, expansion and rehabilitation of the Master District Facilities. The District’s pro rata share (and that of all other Cinco Southwest MUDs) of the debt service requirements on the Contract Revenue Bonds is determined by dividing the District’s certified gross assessed value by the cumulative total of the certified gross assessed values of all the Cinco Southwest MUDs. The District’s 2019 Gross Assessed Valuation was \$681,835,317 at the time the Master District established its 2019 Contract Tax Payment and the 2019 Gross Assessed Valuation of all of the land within the Cinco Southwest MUDs was \$2,293,348,451, which produces a pro rata share for the District of 29.73%, which equates to a 2020 Contract Tax Payment of \$3,007,130. The Master District Contract obligates the District to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of the Contract Tax, revenues derived from the operation of the District’s water distribution and wastewater collection system or from any other legally available funds of the District. The District levied a 2019 Contract Tax of \$0.45 to pay its pro rata share of the debt service on the Contract Revenue Bonds. See “INVESTMENT CONSIDERATIONS—Overlapping Debt.”

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted November 6, 2007 and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 assessed valuation for utility maintenance and \$0.25 per \$100 assessed valuation for road maintenance. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds.

Historical Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$ 0.245	\$ 0.265	\$ 0.260	\$ 0.260	\$ 0.280
Contract	0.450	0.510	0.490	0.550	0.590
Maintenance and Operations	0.235	0.160	0.250	0.310	0.330
Total	\$ 0.930	\$ 0.935	\$ 1.000	\$ 1.120	\$ 1.200

Additional Penalties

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

Tax Exemptions

For the 2020 tax year, the District has granted a \$20,000 tax exemption for residential homesteads of persons 65 years of age or older or disabled and a 5.0% (but not less than \$5,000) exemption on residential homesteads.

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below.

Tax Year	Taxable		Tax Rate	Total Tax Levy(b)	Total Collections as of March 31, 2020	
	Assessed Valuation(a)				Amount	Percent
2015	\$ 659,338,952		\$ 1.200	\$ 7,912,067	\$ 7,912,067	100.00%
2016	688,367,560		1.120	7,709,717	7,709,717	100.00%
2017	670,929,010		1.000	6,709,290	6,709,290	100.00%
2018	668,201,960		0.935	6,247,688	6,239,483	99.87%
2019	651,867,437		0.930	6,062,002	5,962,624	98.36%

- (a) Taxable valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.
- (b) Represents the actual tax rate applied to certified taxable unused value.

Tax Roll Information

The District’s assessed value as of January 1 of each year is used by the District in establishing its tax rate (see “TAXING PROCEDURES—Valuation of Property for Taxation”). The following represents the composition of property comprising the 2015 through 2019 Certified Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

Tax Year	Type of Property			Gross Assessed Valuations	Deferments and Exemptions	Net Certified Taxable Assessed Valuation
	Land	Improvements	Personal Property			
2015	\$ 133,068,840	\$ 571,411,380	\$ 2,456,995	\$ 706,937,215	\$ (47,598,263)	\$ 659,338,952
2016	133,615,400	625,421,660	2,987,870	762,024,930	(73,657,370)	688,367,560
2017	139,116,340	606,439,620	3,873,760	749,429,720	(78,500,710)	670,929,010
2018	148,721,350	588,820,580	3,933,490	741,475,420	(73,273,460)	668,201,960
2019	148,640,010	599,948,490	4,159,730	752,748,230	(100,880,793)	651,867,437

Principal Taxpayers

The following table represents the ten major taxpayers, the taxable assessed valuation of such property, and such property’s taxable assessed valuation as a percentage of the 2019 Certified Taxable Assessed Valuation of \$651,867,437.

Taxpayer	% of	
	2019 Certified Taxable Assessed Valuation	2019 Certified Taxable Assessed Valuation
R&O Cinco Ranch Properties LLC	\$ 4,599,070	0.71%
1463CRB LLC	2,623,520	0.40%
Jamil Family Land Development LLC	2,390,000	0.37%
KDP Land Company LLC	2,235,000	0.34%
Gush Properties KG2, LLC	1,812,180	0.28%
EFE Property LLC	1,569,050	0.24%
Centerpoint Energy Electric	1,432,560	0.22%
Individual	860,891	0.13%
Individual	842,630	0.13%
Individual	820,063	0.13%
Total	\$ 19,184,964	2.94%

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District’s tax base occurred beyond the 2019 Certified Taxable Assessed Valuation of \$651,867,437. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, Collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.

Average Annual Debt Service Requirement (2020-2038)	\$1,329,955
\$0.22 Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$1,362,403
Maximum Annual Debt Service Requirement (2021).....	\$1,583,694
\$0.26 Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$1,610,113

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds and the Remaining Outstanding 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 Resolutions to levy such a tax from year-to-year as described more fully herein under “THE BONDS—Source of Payment.” Under Texas law, the District may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

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

of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

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

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

Tax Abatement

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

Valuation of Property for Taxation

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

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

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

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

District and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement

with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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 taxpayer 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.

Rollback of Operation and Maintenance Tax Rate

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

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

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

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

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

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

District's Rights in the Event of Tax Delinquencies

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

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

INVESTMENT CONSIDERATIONS

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 April 17, 2020, which, among other things, requires Texans to minimize in-person contact with people who are not in the same household unless such people are involved in essential services or essential daily activities and orders the closure of schools throughout the state through the 2019-2020 school year, unless otherwise extended, modified, rescinded, or superseded by the Governor. In addition, Fort Bend County, within which the District is located, has issued a "stay at home" order for most citizens except when engaged in specified essential businesses and government functions effective until April 30, 2020. With Executive Order GA-16 set to expire on April 30, 2020, the Governor issued Executive Order GA-18 on April 27, 2020 which permits a partial reopening of retail establishments, dine-in restaurant services, movie theaters, shopping malls, museums and libraries. The District cannot predict whether the county will extend its order or change any conditions of the order. 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 and commercial activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in commercial activity and 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 and is working with local, state, and national agencies 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 or its ratings (see "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE"). 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.

Potential Effects of Oil Price Declines on the Houston Area

The recent declines in oil prices in the U.S. and globally, which at times have led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. As previously stated, 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.

Recent Extreme Weather Events: Hurricane Harvey

The greater Houston area, including Fort Bend County, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

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

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

Specific Flood Type Risks

River (or Fluvial) Flood: occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheetflow overland. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash floods are very dangerous and destructive not only because of the force of the water, but also the hurtling debris that is often swept up in the flow. They can occur within minutes or a few hours of excessive rainfall. They can also occur even if no rain has fallen, for instance, after a levee or dam has failed, or after a sudden release of water by a debris or ice jam. Controlled releases from a dam or levee also could potentially create a flooding condition in rivers or man-made drainage systems (canals or channels) downstream.

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

General

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

Overlapping Debt

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

The Master District currently has approximately \$111,995,000 principal amount of Contract Revenue Bonds outstanding. The Master District is authorized to issue Contract Revenue Bonds in the principal amount of \$455,000,000 for water, sewer, and drainage facilities without additional voter approval of which \$306,652,655 is authorized but unissued and in the principal amount of \$107,000,000 for roads without additional voter approval of which \$85,525,000 is authorized but unissued. The District is obligated to pay its pro rata share of debt service on the Contract Revenue Bonds from the proceeds of ad valorem taxes levied by the District for such purpose (the "Contract Tax") or from any other lawful source of District income. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "TAX DATA—Contract Tax."

Tax Collections Limitations and Foreclosure Remedies

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

Registered Owners' Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolutions, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolutions, 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 Resolutions. Except for mandamus, the Bond Resolutions 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 Resolutions may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

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

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of \$105,000,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring a water, sewer and drainage system (and refunding such bonds), \$25,000,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring parks and recreational facilities and \$20,000,000 principal amount of unlimited tax bonds for roads and related improvements (and for refunding such bonds) has been authorized by the District's voters.

The District currently has \$87,385,000 principal amount of unlimited tax bonds authorized but unissued for constructing and/or acquiring a water, sewer and drainage system (and refunding such bonds), \$16,090,000 principal amount of unlimited tax bonds authorized but unissued for roads and related improvements (and refunding such bonds) and \$21,035,000 principal amount of unlimited tax bonds authorized but unissued for constructing and/or acquiring parks and recreational facilities. After the issuance of the Bonds, the District will have \$87,285,000 principal amount of unlimited tax bonds for water, sewer and drainage system bonds and for refunding such bonds authorized but unissued and \$21,035,000 principal amount of unlimited tax bonds for constructing and/or acquiring parks and recreational facilities authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of the Bonds.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue; however, bonds for parks and recreational facilities may not be issued in an amount which exceeds one percent (1%) of the District's taxable value at the time of issuance. The issuance of additional bonds for water, sewer and drainage facilities and parks and recreational facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. Future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

Environmental Regulation

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

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

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

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

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

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

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

The HGB Area is currently designated as a “marginal” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2021. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

Water Supply & Discharge Issues: Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

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

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

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

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District has applied for coverage under the MS4 Permit and is awaiting final approval from the TCEQ. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required plans, as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Costs associated with these compliance activities could be substantial in the future.

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

In 2015, the EPA and USACE promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expanded the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The CWR was challenged in numerous jurisdictions, including the Southern District of Texas, causing significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction.

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal officially became final on December 23, 2019, but the repeal has itself 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 EPA published the NWPR in the Federal Register on April 21, 2020. The NWPR will go into effect on June 22, 2020 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.

Marketability of the Bonds

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

Changes in Tax Legislation

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

Continuing Compliance with Certain Covenants

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

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

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

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 each 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”) for each issue. Moody’s Investors Service (“Moody’s”), has assigned an underlying rating of “A2” to the Bonds. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”

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

MUNICIPAL BOND INSURANCE

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 each series of the Bonds (collectively, 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 March 31, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$459.6 million, \$126.1 million and \$333.5 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.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Obligations, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds and; (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes and (c) compliance with the City of Houston Ordinance No. 97-416.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District's retained advisors, consultants or legal counsel.

LEGAL MATTERS

Legal Proceedings

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

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

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

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

No Material Adverse Change

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

No-Litigation Certificate

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

TAX MATTERS

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

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

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

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") is less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

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

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

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

Qualified Tax-Exempt Obligations

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

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2020 is not expected to exceed \$10,000,000 and that the Issuer and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2020.

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by Utility Tax Service, LLC, and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the District’s water, wastewater and storm drainage system and, in particular that information included in the sections entitled “THE DISTRICT” and “WATER, SEWER AND DRAINAGE” has been provided by BGE, Inc. and has been included herein in reliance upon the authority of said firm as the District’s Engineer.

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

Bookkeeper: The information related to the “unaudited” summary of the District’s General Operating Fund as it appears in “WATER, SEWER AND DRAINAGE—Water and Wastewater Operations” has been provided by F. Matuska, Inc. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

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

Certification of Official Statement

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the Board has relied in part upon its examination of records of the District, and upon 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 Resolutions, the District has the following agreement for the benefit of the registered and beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB, or any successor, through its Electronic Municipal Market Access System (“EMMA”). The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings “WATER, SEWER, AND DRAINAGE,” “THE ROADS,” “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED),” except for “Estimated Overlapping Debt,” “TAX DATA,” and “APPENDIX A” (Independent Auditor’s Report and Financial Statements of the District and Certain Supplemental Schedules). The District will update and provide this information within six months after the end of each fiscal year ending in or after 2020. Any financial statements provided by the District shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited statements for the applicable year to the MSRB within such six month period and audited financial statements when the audit report becomes available.

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

Specified Event Notices

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

Availability of Information from the MSRB

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance With Prior Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by the District in accordance with SEC Rule 15c2-12 with the exception of the following: the District's underlying S&P rating was upgraded from "BBB-" to "BBB" on February 26, 2015 and the District did not file notice of the resulting rating change within ten business days after the rating change occurred. The Event Notice for the rating change was filed with the MSRB on April 23, 2019.

MISCELLANEOUS

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

/s/ James K. Blake
President, Board of Directors

ATTEST:

/s/ Kristina Bozoarth
Secretary, Board of Directors

APPENDIX A

Independent Auditor's Report and Financial Statements of the fiscal year ended May 31, 2019

Cinco Southwest Municipal Utility District No. 3

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2019



Cinco Southwest Municipal Utility District No. 3
May 31, 2019

Contents

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Position and Governmental Funds Balance Sheet	9
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.....	11
Notes to Financial Statements.....	12
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund.....	27
Notes to Required Supplementary Information	28
Other Information	
Other Schedules Included Within This Report	29
Schedule of Services and Rates	30
Schedule of General Fund Expenditures.....	31
Schedule of Temporary Investments	32
Analysis of Taxes Levied and Receivable	33
Schedule of Long-term Debt Service Requirements by Years	35
Changes in Long-term Bonded Debt	44
Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund – Five Years.....	45
Board Members, Key Personnel and Consultants.....	47

Independent Auditor's Report

Board of Directors
Cinco Southwest Municipal Utility District No. 3
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Cinco Southwest Municipal Utility District No. 3 (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 thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
October 8, 2019

Cinco Southwest Municipal Utility District No. 3

Management's Discussion and Analysis

May 31, 2019

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

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

Cinco Southwest Municipal Utility District No. 3

Management's Discussion and Analysis (Continued)

May 31, 2019

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Notes to Financial Statements

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

Cinco Southwest Municipal Utility District No. 3
Management's Discussion and Analysis (Continued)
May 31, 2019

Financial Analysis of the District as a Whole

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

Summary of Net Position

	2019	2018
Current and other assets	\$ 11,262,871	\$ 11,093,625
Capital assets	<u>13,979,563</u>	<u>14,429,605</u>
Total assets	<u>\$ 25,242,434</u>	<u>\$ 25,523,230</u>
Long-term liabilities	\$ 19,496,051	\$ 20,375,341
Other liabilities	<u>463,846</u>	<u>445,798</u>
Total liabilities	<u>19,959,897</u>	<u>20,821,139</u>
Net position:		
Net investment in capital assets	(5,423,853)	(5,852,640)
Restricted	3,817,422	3,655,029
Unrestricted	<u>6,888,968</u>	<u>6,899,702</u>
Total net position	<u>\$ 5,282,537</u>	<u>\$ 4,702,091</u>

The total net position of the District increased by \$580,446, or about 12 percent. The majority of the increase in net position is related to property taxes and service revenues exceeding services, contractual obligations and debt service expenses. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Position

	2019	2018
Revenues:		
Property taxes	\$ 6,247,705	\$ 6,706,199
Charges for services	2,057,590	1,950,411
Other revenues	<u>234,894</u>	<u>163,083</u>
Total revenues	<u>8,540,189</u>	<u>8,819,693</u>

Cinco Southwest Municipal Utility District No. 3
Management's Discussion and Analysis (Continued)
May 31, 2019

Summary of Changes in Net Position (Continued)

	2019	2018
Expenses:		
Services	\$ 3,374,434	\$ 2,840,401
Depreciation	450,042	450,043
Debt service	865,436	879,085
Contractual obligation	3,269,831	3,542,610
Total expenses	<u>7,959,743</u>	<u>7,712,139</u>
Change in net position	580,446	1,107,554
Net position, beginning of year	<u>4,702,091</u>	<u>3,594,537</u>
Net position, end of year	<u><u>\$ 5,282,537</u></u>	<u><u>\$ 4,702,091</u></u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended May 31, 2019, were \$10,975,183, an increase of \$168,737 from the prior year.

The general fund's fund balance decreased by \$3,957 due to service operations expenditures exceeding property taxes, service revenues and investment income.

The debt service fund's fund balance increased by \$173,155 due to tax revenues generated being greater than bond principal and interest requirements, contractual obligation and contracted services expenditures.

The capital project fund's fund balance decreased by \$461 due to other expenditures exceeding investment income.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to property taxes, regional water fee and investment income revenues and purchased services and repairs and maintenance expenditures being greater than anticipated. The fund balance as of May 31, 2019, was expected to be \$6,848,046 and the actual end-of-year fund balance was \$6,883,914.

Cinco Southwest Municipal Utility District No. 3
Management's Discussion and Analysis (Continued)
May 31, 2019

Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

	2019	2018
Land and improvements	\$ 639,968	\$ 639,968
Water facilities	2,779,018	2,854,496
Wastewater facilities	4,346,367	4,464,195
Drainage facilities	4,825,862	4,957,180
Roads	1,388,348	1,513,766
Total capital assets	\$ 13,979,563	\$ 14,429,605

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

Debt

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

Long-term debt payable, beginning of year	\$ 20,375,341
Decreases in long-term debt	(879,290)
Long-term debt payable, end of year	\$ 19,496,051

At May 31, 2019, the District had \$87,480,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing, improving and refunding the water, sanitary sewer and drainage systems within the District; \$21,035,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving recreational facilities; and \$16,155,000 authorized, but unissued, unlimited tax bonds for the purpose of purchasing, constructing and maintaining roads.

The District's bonds carry an underlying rating of "BBB." The Series 2013 and 2013A bonds carry a "AA" rating by virtue of bond insurance issued by Build America Mutual Assurance Company.

Cinco Southwest Municipal Utility District No. 3
Management's Discussion and Analysis (Continued)
May 31, 2019

Other Relevant Factors

Relationship to the City of Houston

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

Effective December 14, 2009, the District entered into a Strategic Partnership Agreement (the Agreement) with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years, at which time the City has the option to annex the District if it chooses to do so.

Subsequent Event

In June 2019, the District issued \$9,225,000 in Unlimited Tax Refunding Bonds, Series 2019 to advance-refund \$3,920,000 of outstanding Series 2011 bonds and \$5,210,000 of outstanding Series 2012 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$1,161,838 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$853,108.

In June 2019, the District also issued \$2,955,000 in Unlimited Tax Road Refunding Bonds, Series 2019, to advance-refund \$2,260,000 of outstanding Series 2011 road bonds and \$630,000 of outstanding Series 2012 road bonds. The District refunded the bonds to reduce total debt service payments over future years by \$422,422 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$309,945.

Cinco Southwest Municipal Utility District No. 3
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 306,014	\$ 61,178	\$ -	\$ 367,192	\$ -	\$ 367,192
Certificates of deposit	235,000	-	-	235,000	-	235,000
Short-term investments	6,397,720	3,970,829	92,635	10,461,184	-	10,461,184
Receivables:						
Property taxes	5,054	24,272	-	29,326	-	29,326
Service accounts	159,182	-	-	159,182	-	159,182
Accrued interest	4,459	-	-	4,459	-	4,459
Interfund receivable	33,373	-	-	33,373	(33,373)	-
Due from others	6,528	-	-	6,528	-	6,528
Capital assets (net of accumulated depreciation):						
Land and improvements	-	-	-	-	639,968	639,968
Infrastructure	-	-	-	-	11,951,247	11,951,247
Roads	-	-	-	-	1,388,348	1,388,348
Total assets	\$ 7,147,330	\$ 4,056,279	\$ 92,635	\$ 11,296,244	\$ 13,946,190	\$ 25,242,434

Cinco Southwest Municipal Utility District No. 3
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
May 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Liabilities						
Accounts payable	\$ 233,637	\$ -	\$ -	\$ 233,637	\$ -	\$ 233,637
Accrued interest payable	-	-	-	-	205,484	205,484
Customer deposits	24,725	-	-	24,725	-	24,725
Interfund payable	-	33,373	-	33,373	(33,373)	-
Long-term liabilities:						
Due within one year	-	-	-	-	905,000	905,000
Due after one year	-	-	-	-	18,591,051	18,591,051
Total liabilities	258,362	33,373	0	291,735	19,668,162	19,959,897
Deferred Inflows of Resources						
Deferred property tax revenues	5,054	24,272	0	29,326	(29,326)	0
Fund Balances/Net Position						
Fund balances:						
Restricted:						
Unlimited tax bonds	-	3,632,769	-	3,632,769	(3,632,769)	-
Road bonds	-	365,865	-	365,865	(365,865)	-
Parks	-	-	92,635	92,635	(92,635)	-
Unassigned	6,883,914	-	-	6,883,914	(6,883,914)	-
Total fund balances	6,883,914	3,998,634	92,635	10,975,183	(10,975,183)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 7,147,330	\$ 4,056,279	\$ 92,635	\$ 11,296,244		
Net position:						
Net investment in capital assets					(5,423,853)	(5,423,853)
Restricted for debt service					3,817,422	3,817,422
Unrestricted					6,888,968	6,888,968
Total net position					\$ 5,282,537	\$ 5,282,537

Cinco Southwest Municipal Utility District No. 3
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended May 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 1,075,853	\$ 5,189,457	\$ -	\$ 6,265,310	\$ (17,605)	\$ 6,247,705
Water service	529,531	-	-	529,531	-	529,531
Sewer service	417,783	-	-	417,783	-	417,783
Regional water fee	1,110,276	-	-	1,110,276	-	1,110,276
Penalty and interest	13,888	22,707	-	36,595	(6,543)	30,052
Investment income	141,397	61,384	2,039	204,820	-	204,820
Other income	22	-	-	22	-	22
Total revenues	3,288,750	5,273,548	2,039	8,564,337	(24,148)	8,540,189
Expenditures/Expenses						
Service operations:						
Purchased services	927,828	-	-	927,828	-	927,828
Regional water fee	1,089,333	-	-	1,089,333	-	1,089,333
Professional fees	109,260	-	-	109,260	-	109,260
Contracted services	432,898	67,568	-	500,466	-	500,466
Repairs and maintenance	635,052	-	-	635,052	-	635,052
Other expenditures	98,336	11,659	2,500	112,495	-	112,495
Depreciation	-	-	-	-	450,042	450,042
Debt service:						
Principal retirement	-	900,000	-	900,000	(900,000)	-
Interest and fees	-	839,155	-	839,155	14,101	853,256
Debt issuance costs	-	12,180	-	12,180	-	12,180
Contractual obligation	-	3,269,831	-	3,269,831	-	3,269,831
Total expenditures/expenses	3,292,707	5,100,393	2,500	8,395,600	(435,857)	7,959,743
Excess (Deficiency) of Revenues						
Over Expenditures	(3,957)	173,155	(461)	168,737	(168,737)	
Change in Net Position					580,446	580,446
Fund Balances/Net Position						
Beginning of year	6,887,871	3,825,479	93,096	10,806,446	-	4,702,091
End of year	\$ 6,883,914	\$ 3,998,634	\$ 92,635	\$ 10,975,183	\$ 0	\$ 5,282,537

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2019

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

Cinco Southwest Municipal Utility District No. 3 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission) dated February 9, 2007. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater, drainage, recreational facilities and road facilities and to provide such facilities and services to the customers of the District.

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

Reporting Entity

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

Government-wide and Fund Financial Statements

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

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

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2019

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

The District presents the following major governmental funds:

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

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

Capital Projects Fund – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Fund Balances – Governmental Funds

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

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

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

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

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

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

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

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2019

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Deferred Outflows and Inflows of Resources

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

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2019

Interfund Transactions

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

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

Pension Costs

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

Use of Estimates

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

Investments and Investment Income

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

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

Property Taxes

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

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2019

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

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

Capital Assets

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

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

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

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

Debt Issuance Costs

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

Long-term Obligations

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

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2019

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

Net Position/Fund Balances

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 13,979,563
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	29,326
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(205,484)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(19,496,051)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ (5,692,646)</u>

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

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2019

Change in fund balances.	\$	168,737
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense in the current year.		(450,042)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.		900,000
Revenue collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds.		(24,148)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<u>(14,101)</u>
Change in net position of governmental activities.	\$	<u><u>580,446</u></u>

Note 2: Deposits, Investments and Investment Income

Deposits

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

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

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

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2019

Investments

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

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

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

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

Type	Maturities in Years				
	Amortized Cost	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 10,461,184	\$ 10,461,184	\$ 0	\$ 0	\$ 0

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

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

Summary of Carrying Values

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

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2019

Carrying value:		
Deposits	\$	602,192
Investments		10,461,184
Total	\$	11,063,376

Investment Income

Investment income of \$204,820 for the year ended May 31, 2019, consisted of interest income.

Note 3: Capital Assets

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

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 639,968	\$ 0	\$ 639,968
Capital assets, depreciable:			
Water production and distribution facilities	3,387,722	-	3,387,722
Wastewater collection and treatment facilities	5,287,646	-	5,287,646
Drainage facilities	5,893,210	-	5,893,210
Roads	2,417,071	-	2,417,071
Total capital assets, depreciable	16,985,649	0	16,985,649
Less accumulated depreciation:			
Water production and distribution facilities	(533,226)	(75,478)	(608,704)
Wastewater collection and treatment facilities	(823,451)	(117,828)	(941,279)
Drainage facilities	(936,030)	(131,318)	(1,067,348)
Roads	(903,305)	(125,418)	(1,028,723)
Total accumulated depreciation	(3,196,012)	(450,042)	(3,646,054)
Total governmental activities, net	\$ 14,429,605	\$ (450,042)	\$ 13,979,563

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2019

Note 4: Long-term Liabilities

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

Governmental Activities	Balances, Beginning of Year	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:				
General obligation bonds	\$ 21,010,000	\$ 900,000	\$ 20,110,000	\$ 905,000
Less discounts on bonds	634,659	20,710	613,949	-
Total governmental activities long-term liabilities	<u>\$ 20,375,341</u>	<u>\$ 879,290</u>	<u>\$ 19,496,051</u>	<u>\$ 905,000</u>

General Obligation Bonds

	Series 2011	Road Series 2011
Amounts outstanding, May 31, 2019	\$4,205,000	\$2,425,000
Interest rates	4.00% to 5.00%	2.75% to 5.00%
Maturity dates, serially beginning/ending	September 1, 2019/2036	September 1, 2019/2036
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2019	September 1, 2019
	Series 2012	Road Series 2012
Amounts outstanding, May 31, 2019	\$6,140,000	\$700,000
Interest rates	2.60% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2038	September 1, 2019/2038
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2019	September 1, 2019

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

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2019

	Series 2012A	Series 2012B
Amounts outstanding, May 31, 2019	\$1,300,000	\$1,530,000
Interest rates	1.40% to 3.85%	1.40% to 3.85%
Maturity dates, serially beginning/ending	September 1, 2019/2038	September 1, 2019/2038
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2019	September 1, 2019
	Series 2013	Series 2013A
Amounts outstanding, May 31, 2019	\$2,245,000	\$1,565,000
Interest rates	3.25% to 5.00%	3.50% to 5.00%
Maturity dates, serially beginning/ending	September 1, 2019/2038	September 1, 2019/2038
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2020	September 1, 2020

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

Annual Debt Service Requirements

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

Year	Principal	Interest	Total
2020	\$ 905,000	\$ 808,296	\$ 1,713,296
2021	915,000	780,260	1,695,260
2022	930,000	750,552	1,680,552
2023	945,000	718,995	1,663,995
2024	960,000	685,363	1,645,363
2025-2029	5,025,000	2,850,931	7,875,931
2030-2034	5,495,000	1,727,582	7,222,582
2035-2039	4,935,000	476,654	5,411,654
Total	<u>\$ 20,110,000</u>	<u>\$ 8,798,633</u>	<u>\$ 28,908,633</u>

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2019

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

Water, sewer, drainage and refunding bonds voted	\$ 105,000,000
Water, sewer, drainage and refunding bonds sold	17,520,000
Recreational bonds voted	25,000,000
Recreational bonds sold	3,965,000
Road bonds voted	20,000,000
Road bonds sold	3,845,000

Note 5: Significant Bond Resolution and Commission Requirements

- A. The Bond Resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended May 31, 2019, the District levied an ad valorem debt service tax at the rate of \$0.2250 per \$100 of assessed valuation, which resulted in a tax levy of \$1,503,580 on the taxable valuation of \$668,257,780 for the 2018 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$1,472,728 of which \$341,364 has been paid and \$1,131,364 is due September 1, 2019.

- B. At an election held November 6, 2007, voters authorized a road debt service tax sufficient to pay principal and interest on road bonds when due. During the year ended May 31, 2019, the District levied an ad valorem road debt service tax at the rate of \$0.0400 per \$100 of assessed valuation, which resulted in a tax levy of \$267,303 on the taxable valuation of \$668,257,780 for the 2018 tax year. The interest and principal requirements to be paid from the road debt service tax revenues are \$254,208 of which \$69,604 has been paid and \$184,604 is due September 1, 2019.

Note 6: Maintenance Taxes

At an election held November 6, 2007, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.1600 per \$100 of assessed valuation, which resulted in a tax levy of \$1,069,212 on the taxable valuation of \$668,257,780 for the 2018 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2019

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

Note 7: Contract Taxes

At an election held November 6, 2007, voters authorized a contract tax on all property within the District subject to taxation. During the year ended May 31, 2019, the District levied an ad valorem contract tax at the rate of \$0.5100 per \$100 assessed valuation, which resulted in a tax levy of \$3,408,115 on the taxable valuation of \$668,257,780 for the 2018 tax year. This contract tax is used to pay for its pro rata share of principal and interest on the District's contract revenue bonds as described in Note 9.

Note 8: Regional Water Authority

The District is within the boundaries of the North Fort Bend Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Fort Bend Subsidence District, which regulates groundwater withdrawal. As of May 31, 2019, the Authority was billing Cinco Southwest Municipal Utility District No. 1 (District No. 1) \$3.65 per 1,000 gallons of water pumped from its wells and \$4.00 per 1,000 gallons of surface water received. District No. 1 charges the District monthly operational fees, which include the Authority's fee. This amount is subject to future increases.

Note 9: Financing and Operation of Regional Facilities

On November 16, 2007, the District entered into a regional contract with District No. 1. District No. 1 agreed to provide or cause to be provided the regional water supply and delivery facilities and the regional waste collection, treatment and disposal facilities necessary to serve the District. Under the terms of the regional contract, which is in effect for 40 years, District No. 1 charges the District a monthly operational fee calculated by multiplying the unit cost per connection by the number of equivalent single-family residential connections reserved to each participant. For the year ended May 31, 2019, the District incurred \$927,828 for its share of operating costs under this agreement.

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2019

In addition, District No. 1 is authorized to issue contract revenue bonds sufficient to complete acquisition and construction of the facilities, as needed, to serve all districts in the service area. Each participating district contributes to the payment of debt service requirements of the bonds, based on the certified assessed valuation of each participant as a percentage of the total assessed valuation of all participating districts. During the current year, the District paid \$3,269,831 for its pro rata share (approximately 30 percent) of the principal and interest of District No. 1's bonds.

During prior years, the District purchased a total of 668 equivalent single-family connections for recreational facilities at \$5,000 per connection for a total of \$3,340,000.

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

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

Note 10: Strategic Partnership Agreement

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

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2019

The Agreement further provides that the City may not annex the District for "full purposes" until 30 years from the effective date of the Agreement (December 14, 2009). Prior to the full purpose annexation of the District, property within the District is not subject to the City's ad valorem property tax and District residents are not allowed to vote in City elections for bond issues or charter amendments.

Note 11: Risk Management

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

Note 12: Subsequent Event

In June 2019, the District issued \$9,225,000 in Unlimited Tax Refunding Bonds, Series 2019 to advance-refund \$3,920,000 of outstanding Series 2011 bonds and \$5,210,000 of outstanding Series 2012 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$1,161,838 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$853,108.

In June 2019, the District also issued \$2,955,000 in Unlimited Tax Road Refunding Bonds, Series 2019, to advance-refund \$2,260,000 of outstanding Series 2011 road bonds and \$630,000 of outstanding Series 2012 road bonds. The District refunded the bonds to reduce total debt service payments over future years by \$422,422 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$309,945.

Required Supplementary Information

Cinco Southwest Municipal Utility District No. 3
Budgetary Comparison Schedule – General Fund
Year Ended May 31, 2019

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 990,500	\$ 1,075,853	\$ 85,353
Water service	512,000	529,531	17,531
Sewer service	435,200	417,783	(17,417)
Regional water fee	1,000,000	1,110,276	110,276
Penalty and interest	15,000	13,888	(1,112)
Investment income	10,000	141,397	131,397
Other income	-	22	22
	<u>2,962,700</u>	<u>3,288,750</u>	<u>326,050</u>
Expenditures			
Service operations:			
Purchased services	854,568	927,828	(73,260)
Regional water fee	1,109,942	1,089,333	20,609
Professional fees	95,100	109,260	(14,160)
Contracted services	439,600	432,898	6,702
Repairs and maintenance	377,600	635,052	(257,452)
Other expenditures	125,715	98,336	27,379
	<u>3,002,525</u>	<u>3,292,707</u>	<u>(290,182)</u>
Deficiency of Revenues Over Expenditures	(39,825)	(3,957)	35,868
Fund Balance, Beginning of Year	<u>6,887,871</u>	<u>6,887,871</u>	-
Fund Balance, End of Year	<u>\$ 6,848,046</u>	<u>\$ 6,883,914</u>	<u>\$ 35,868</u>

Cinco Southwest Municipal Utility District No. 3
Notes to Required Supplementary Information
May 31, 2019

Budgets and Budgetary Accounting

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

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

Other Information

Cinco Southwest Municipal Utility District No. 3
Other Schedules Included Within This Report
May 31, 2019

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

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

Cinco Southwest Municipal Utility District No. 3

Schedule of Services and Rates

Year Ended May 31, 2019

1. Services provided by the District:

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

2. Retail service providers

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
Water:	\$ 19.50	1,000	N	\$ 1.05	1,001 to 30,000
				\$ 2.50	30,001 to No Limit
Wastewater:	\$ 0	1,000	N	\$ 1.45	1,001 to No Limit
Regional water fee:	\$ 4.16	0	N	\$ 4.16	

Does the District employ winter averaging for wastewater usage?

Yes No

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

Water \$ 70.55

Wastewater \$ 13.05

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC*
Unmetered	-	-	x1.0	-
≤ 3/4"	1,181	1,178	x1.0	1,178
1"	557	556	x2.5	1,390
1 1/2"	1	1	x5.0	5
2"	49	49	x8.0	392
3"	-	-	x15.0	-
4"	3	3	x25.0	75
6"	-	-	x50.0	-
8"	1	1	x80.0	80
10"	-	-	x115.0	-
Total water	1,792	1,788		3,120
Total wastewater	1,727	1,723	x1.0	1,723

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

Gallons pumped into the system:	283,947
Gallons billed to customers:	283,947
Water accountability ratio (gallons billed/gallons pumped):	100.00%

*"ESFC" means equivalent single-family connections

Cinco Southwest Municipal Utility District No. 3
Schedule of General Fund Expenditures
Year Ended May 31, 2019

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	16,200	
Legal		64,299	
Engineering		28,761	
Financial advisor		-	109,260
		<hr/>	
Purchased Services for Resale			
Bulk water and wastewater service purchases			927,828
Regional Water Fee			1,089,333
Contracted Services			
Bookkeeping		10,890	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		29,335	
Other contracted services		67,550	107,775
		<hr/>	
Utilities			-
Repairs and Maintenance			635,052
Administrative Expenditures			
Directors' fees		10,350	
Office supplies		37,970	
Insurance		2,861	
Other administrative expenditures		47,155	98,336
		<hr/>	
Capital Outlay			
Capitalized assets		-	
Expenditures not capitalized		-	-
		<hr/>	
Tap Connection Expenditures			-
Solid Waste Disposal			325,123
Fire Fighting			-
Parks and Recreation			-
Other Expenditures			-
			<hr/>
Total expenditures		<u>\$</u>	<u>3,292,707</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Temporary Investments
May 31, 2019

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
Certificate of Deposit No. 6762691696	2.38%	08/13/19	\$ 235,000	\$ 4,459
TexPool	2.43%	Demand	<u>6,397,720</u>	<u>-</u>
			<u>6,632,720</u>	<u>4,459</u>
Debt Service Fund				
TexPool	2.43%	Demand	1,629,944	-
TexPool	2.43%	Demand	365,865	-
TexPool	2.43%	Demand	<u>1,975,020</u>	<u>-</u>
			<u>3,970,829</u>	<u>0</u>
Capital Projects Fund				
TexPool	2.43%	Demand	<u>92,635</u>	<u>0</u>
Totals			<u><u>\$ 10,696,184</u></u>	<u><u>\$ 4,459</u></u>

Cinco Southwest Municipal Utility District No. 3
Analysis of Taxes Levied and Receivable
Year Ended May 31, 2019

	Maintenance Taxes	Contract Taxes	Road Debt Service Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 11,831	\$ 23,001	\$ 1,861	\$ 10,238
Additions and corrections to prior years' taxes	(136)	(248)	(19)	(102)
Adjusted receivable, beginning of year	<u>11,695</u>	<u>22,753</u>	<u>1,842</u>	<u>10,136</u>
2018 Original Tax Levy	1,067,840	3,403,740	266,960	1,501,650
Additions and corrections	1,372	4,375	343	1,930
Adjusted tax levy	<u>1,069,212</u>	<u>3,408,115</u>	<u>267,303</u>	<u>1,503,580</u>
Total to be accounted for	1,080,907	3,430,868	269,145	1,513,716
Tax collections: Current year	(1,064,253)	(3,392,307)	(266,063)	(1,496,606)
Prior years	(11,600)	(22,583)	(1,831)	(10,067)
Receivable, end of year	<u>\$ 5,054</u>	<u>\$ 15,978</u>	<u>\$ 1,251</u>	<u>\$ 7,043</u>
Receivable, by Years				
2018	\$ 4,959	\$ 15,808	\$ 1,240	\$ 6,974
2017	-	-	-	-
2016	-	-	-	-
2015	95	170	11	69
Receivable, end of year	<u>\$ 5,054</u>	<u>\$ 15,978</u>	<u>\$ 1,251</u>	<u>\$ 7,043</u>

Cinco Southwest Municipal Utility District No. 3
Analysis of Taxes Levied and Receivable (Continued)
Year Ended May 31, 2019

	2018	2017	2016	2015
Property Valuations				
Land	\$ 148,746,670	\$ 139,116,340	\$ 133,615,400	\$ 133,068,840
Improvements	588,820,580	606,440,960	625,425,180	571,365,790
Personal property	3,943,990	3,878,060	2,987,870	2,458,615
Exemptions	<u>(73,253,460)</u>	<u>(78,473,570)</u>	<u>(73,647,370)</u>	<u>(47,503,508)</u>
 Total property valuations	 <u>\$ 668,257,780</u>	 <u>\$ 670,961,790</u>	 <u>\$ 688,381,080</u>	 <u>\$ 659,389,737</u>
 Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.2250	\$ 0.2200	\$ 0.2200	\$ 0.2400
Contract tax rates	0.5100	0.4900	0.5500	0.5900
Road debt service tax rates	0.0400	0.0400	0.0400	0.0400
Maintenance tax rates*	<u>0.1600</u>	<u>0.2500</u>	<u>0.3100</u>	<u>0.3300</u>
 Total tax rates per \$100 valuation	 <u>\$ 0.9350</u>	 <u>\$ 1.0000</u>	 <u>\$ 1.1200</u>	 <u>\$ 1.2000</u>
 Tax Levy	 <u>\$ 6,248,210</u>	 <u>\$ 6,709,618</u>	 <u>\$ 7,709,868</u>	 <u>\$ 7,912,677</u>
 Percent of Taxes Collected to Taxes Levied**	 <u>99%</u>	 <u>100%</u>	 <u>100%</u>	 <u>99%</u>

*Maximum tax rate approved by voters: \$1.50 on November 6, 2007

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

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2011		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 140,000	\$ 200,520	\$ 340,520
2021	145,000	194,820	339,820
2022	155,000	188,665	343,665
2023	165,000	181,780	346,780
2024	175,000	174,125	349,125
2025	185,000	165,753	350,753
2026	195,000	156,725	351,725
2027	205,000	147,022	352,022
2028	220,000	136,500	356,500
2029	230,000	125,250	355,250
2030	245,000	113,375	358,375
2031	260,000	100,750	360,750
2032	270,000	87,500	357,500
2033	290,000	73,500	363,500
2034	305,000	58,625	363,625
2035	320,000	43,000	363,000
2036	340,000	26,500	366,500
2037	360,000	9,000	369,000
Totals	<u>\$ 4,205,000</u>	<u>\$ 2,183,410</u>	<u>\$ 6,388,410</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Road Series 2011		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 80,000	\$ 112,205	\$ 192,205
2021	85,000	109,211	194,211
2022	90,000	105,818	195,818
2023	95,000	102,070	197,070
2024	100,000	97,998	197,998
2025	105,000	93,589	198,589
2026	115,000	88,775	203,775
2027	120,000	83,545	203,545
2028	125,000	77,970	202,970
2029	135,000	71,922	206,922
2030	140,000	65,250	205,250
2031	150,000	58,000	208,000
2032	155,000	50,375	205,375
2033	165,000	42,375	207,375
2034	175,000	33,875	208,875
2035	185,000	24,875	209,875
2036	195,000	15,375	210,375
2037	210,000	5,250	215,250
Totals	<u>\$ 2,425,000</u>	<u>\$ 1,238,478</u>	<u>\$ 3,663,478</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2012		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 310,000	\$ 223,435	\$ 533,435
2021	310,000	215,065	525,065
2022	310,000	206,075	516,075
2023	310,000	196,542	506,542
2024	310,000	186,390	496,390
2025	310,000	175,618	485,618
2026	310,000	164,457	474,457
2027	310,000	152,600	462,600
2028	305,000	140,300	445,300
2029	305,000	128,100	433,100
2030	305,000	115,900	420,900
2031	305,000	103,700	408,700
2032	305,000	91,500	396,500
2033	305,000	79,300	384,300
2034	305,000	67,100	372,100
2035	305,000	54,900	359,900
2036	305,000	42,700	347,700
2037	305,000	30,500	335,500
2038	305,000	18,300	323,300
2039	305,000	6,100	311,100
Totals	\$ 6,140,000	\$ 2,398,582	\$ 8,538,582

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Road Series 2012		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 35,000	\$ 25,165	\$ 60,165
2021	35,000	24,246	59,246
2022	35,000	23,240	58,240
2023	35,000	22,155	57,155
2024	35,000	21,000	56,000
2025	35,000	19,775	54,775
2026	35,000	18,497	53,497
2027	35,000	17,194	52,194
2028	35,000	15,881	50,881
2029	35,000	14,569	49,569
2030	35,000	13,256	48,256
2031	35,000	11,900	46,900
2032	35,000	10,500	45,500
2033	35,000	9,100	44,100
2034	35,000	7,700	42,700
2035	35,000	6,300	41,300
2036	35,000	4,900	39,900
2037	35,000	3,500	38,500
2038	35,000	2,100	37,100
2039	35,000	700	35,700
Totals	\$ 700,000	\$ 271,678	\$ 971,678

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2012A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 65,000	\$ 42,689	\$ 107,689
2021	65,000	41,113	106,113
2022	65,000	39,487	104,487
2023	65,000	37,798	102,798
2024	65,000	35,977	100,977
2025	65,000	34,060	99,060
2026	65,000	32,061	97,061
2027	65,000	29,981	94,981
2028	65,000	27,820	92,820
2029	65,000	25,610	90,610
2030	65,000	23,319	88,319
2031	65,000	20,946	85,946
2032	65,000	18,574	83,574
2033	65,000	16,169	81,169
2034	65,000	13,731	78,731
2035	65,000	11,261	76,261
2036	65,000	8,759	73,759
2037	65,000	6,256	71,256
2038	65,000	3,754	68,754
2039	65,000	1,251	66,251
Totals	\$ 1,300,000	\$ 470,616	\$ 1,770,616

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2012B		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 80,000	\$ 49,995	\$ 129,995
2021	80,000	48,055	128,055
2022	80,000	46,055	126,055
2023	80,000	43,975	123,975
2024	80,000	41,735	121,735
2025	80,000	39,375	119,375
2026	75,000	36,994	111,994
2027	75,000	34,594	109,594
2028	75,000	32,100	107,100
2029	75,000	29,550	104,550
2030	75,000	26,906	101,906
2031	75,000	24,169	99,169
2032	75,000	21,431	96,431
2033	75,000	18,656	93,656
2034	75,000	15,844	90,844
2035	75,000	12,994	87,994
2036	75,000	10,106	85,106
2037	75,000	7,219	82,219
2038	75,000	4,331	79,331
2039	75,000	1,444	76,444
Totals	<u>\$ 1,530,000</u>	<u>\$ 545,528</u>	<u>\$ 2,075,528</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2013		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 115,000	\$ 90,581	\$ 205,581
2021	115,000	86,844	201,844
2022	115,000	83,106	198,106
2023	115,000	79,369	194,369
2024	115,000	75,631	190,631
2025	115,000	71,750	186,750
2026	115,000	67,725	182,725
2027	115,000	63,413	178,413
2028	115,000	58,812	173,812
2029	110,000	54,313	164,313
2030	110,000	49,637	159,637
2031	110,000	44,688	154,688
2032	110,000	39,737	149,737
2033	110,000	34,719	144,719
2034	110,000	29,631	139,631
2035	110,000	24,544	134,544
2036	110,000	19,250	129,250
2037	110,000	13,750	123,750
2038	110,000	8,250	118,250
2039	110,000	2,750	112,750
Totals	\$ 2,245,000	\$ 998,500	\$ 3,243,500

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2013A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 80,000	\$ 63,706	\$ 143,706
2021	80,000	60,906	140,906
2022	80,000	58,106	138,106
2023	80,000	55,306	135,306
2024	80,000	52,507	132,507
2025	80,000	49,706	129,706
2026	80,000	46,906	126,906
2027	80,000	43,907	123,907
2028	80,000	40,706	120,706
2029	80,000	37,506	117,506
2030	80,000	34,156	114,156
2031	80,000	30,657	110,657
2032	80,000	27,156	107,156
2033	75,000	23,672	98,672
2034	75,000	20,203	95,203
2035	75,000	16,735	91,735
2036	75,000	13,125	88,125
2037	75,000	9,375	84,375
2038	75,000	5,625	80,625
2039	75,000	1,875	76,875
Totals	<u>\$ 1,565,000</u>	<u>\$ 691,841</u>	<u>\$ 2,256,841</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 905,000	\$ 808,296	\$ 1,713,296
2021	915,000	780,260	1,695,260
2022	930,000	750,552	1,680,552
2023	945,000	718,995	1,663,995
2024	960,000	685,363	1,645,363
2025	975,000	649,626	1,624,626
2026	990,000	612,140	1,602,140
2027	1,005,000	572,256	1,577,256
2028	1,020,000	530,089	1,550,089
2029	1,035,000	486,820	1,521,820
2030	1,055,000	441,799	1,496,799
2031	1,080,000	394,810	1,474,810
2032	1,095,000	346,773	1,441,773
2033	1,120,000	297,491	1,417,491
2034	1,145,000	246,709	1,391,709
2035	1,170,000	194,609	1,364,609
2036	1,200,000	140,715	1,340,715
2037	1,235,000	84,850	1,319,850
2038	665,000	42,360	707,360
2039	665,000	14,120	679,120
Totals	<u>\$ 20,110,000</u>	<u>\$ 8,798,633</u>	<u>\$ 28,908,633</u>

Cinco Southwest Municipal Utility District No. 3
Changes in Long-term Bonded Debt
Year Ended May 31, 2019

	Bond		
	Series 2011	Road Series 2011	Series 2012
Interest rates	4.00% to 5.00%	2.75% to 5.00%	2.60% to 4.00%
Dates interest payable	September 1/ March 1	September 1/ March 1	September 1/ March 1
Maturity dates	September 1, 2019/2036	September 1, 2019/2036	September 1, 2019/2038
Bonds outstanding, beginning of current year	\$ 4,335,000	\$ 2,500,000	\$ 6,450,000
Retirements, principal	130,000	75,000	310,000
Bonds outstanding, end of current year	\$ 4,205,000	\$ 2,425,000	\$ 6,140,000
Interest paid during current year	\$ 205,920	\$ 114,824	\$ 231,495
Paying agent's name and address:			
Series 2011	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas		
Road Series 2011	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas		
Series 2012	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas		
Road Series 2012	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas		
Series 2012A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas		
Series 2012B	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas		
Series 2013	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas		
Series 2013A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas		
Bond authority:			
	Tax and Refunding Bonds	Parks and Recreational Bonds	Road Bonds
Amount authorized by voters	\$ 105,000,000	\$ 25,000,000	\$ 20,000,000
Amount issued	\$ 17,520,000	\$ 3,965,000	\$ 3,845,000
Remaining to be issued	\$ 87,480,000	\$ 21,035,000	\$ 16,155,000
Debt service fund cash and temporary investment balances as of May 31, 2019:			\$ 4,032,007
Average annual debt service payment (principal and interest) for remaining term of all debt:			\$ 1,445,432

Issues

Road Series 2012	Series 2012A	Series 2012B	Series 2013	Series 2013A	Totals
2.00% to 4.00%	1.40% to 3.85%	1.40% to 3.85%	3.25% to 5.00%	3.50% to 5.00%	
September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	
September 1, 2019/2038	September 1, 2019/2038	September 1, 2019/2038	September 1, 2019/2038	September 1, 2019/2038	
\$ 740,000	\$ 1,370,000	\$ 1,610,000	\$ 2,360,000	\$ 1,645,000	\$ 21,010,000
40,000	70,000	80,000	115,000	80,000	900,000
<u>\$ 700,000</u>	<u>\$ 1,300,000</u>	<u>\$ 1,530,000</u>	<u>\$ 2,245,000</u>	<u>\$ 1,565,000</u>	<u>\$ 20,110,000</u>
<u>\$ 26,053</u>	<u>\$ 44,222</u>	<u>\$ 51,815</u>	<u>\$ 94,319</u>	<u>\$ 66,506</u>	<u>\$ 835,154</u>

Cinco Southwest Municipal Utility District No. 3
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended May 31,

	Amounts				
	2019	2018	2017	2016	2015
General Fund					
Revenues					
Property taxes	\$ 1,075,853	\$ 1,690,101	\$ 2,130,599	\$ 2,178,329	\$ 2,374,217
Water service	529,531	480,839	484,610	498,584	483,278
Sewer service	417,783	462,918	466,984	453,821	424,225
Regional water fee	1,110,276	1,006,654	894,172	857,593	758,245
Penalty and interest	13,888	14,232	18,094	24,582	25,678
Tap connection and inspection fees	-	-	200	35,425	177,673
Investment income	141,397	71,901	22,378	5,014	2,882
Other income	22	-	-	-	-
Total revenues	3,288,750	3,726,645	4,017,037	4,053,348	4,246,198
Expenditures					
Service operations:					
Purchased services	927,828	854,568	854,570	849,849	824,340
Regional water fee	1,089,333	987,262	906,560	866,973	781,824
Professional fees	109,260	81,967	142,144	91,096	82,866
Contracted services	432,898	411,867	402,014	400,380	407,347
Repairs and maintenance	635,052	326,852	71,672	102,140	46,253
Other expenditures	98,336	79,581	77,283	57,484	61,929
Tap connections	-	-	-	20,710	92,156
Capital outlay	-	-	95,578	-	29,425
Total expenditures	3,292,707	2,742,097	2,549,821	2,388,632	2,326,140
Excess (Deficiency) of Revenues Over Expenditures	(3,957)	984,548	1,467,216	1,664,716	1,920,058
Fund Balance, Beginning of Year	6,887,871	5,903,323	4,436,107	2,771,391	851,333
Fund Balance, End of Year	\$ 6,883,914	\$ 6,887,871	\$ 5,903,323	\$ 4,436,107	\$ 2,771,391
Total Active Retail Water Connections	1,788	1,788	1,790	1,780	1,768
Total Active Retail Wastewater Connections	1,723	1,723	1,725	1,715	1,715

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
32.7 %	45.4 %	53.0 %	53.7 %	55.9 %
16.1	12.9	12.1	12.3	11.4
12.7	12.4	11.6	11.2	10.0
33.8	27.0	22.3	21.2	17.8
0.4	0.4	0.5	0.6	0.6
-	-	0.0	0.9	4.2
4.3	1.9	0.5	0.1	0.1
0.0	-	-	-	-
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
28.2	22.9	21.3	20.9	19.4
33.1	26.5	22.6	21.4	18.4
3.3	2.2	3.5	2.1	1.9
13.2	11.1	10.0	9.9	9.6
19.3	8.8	1.8	2.5	1.1
3.0	2.1	1.9	1.6	1.5
-	-	-	0.5	2.2
-	-	2.4	-	0.7
<u>100.1</u>	<u>73.6</u>	<u>63.5</u>	<u>58.9</u>	<u>54.8</u>
<u>(0.1) %</u>	<u>26.4 %</u>	<u>36.5 %</u>	<u>41.1 %</u>	<u>45.2 %</u>

Cinco Southwest Municipal Utility District No. 3
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended May 31,

	Amounts				
	2019	2018	2017	2016	2015
Debt Service Fund					
Revenues					
Property taxes	\$ 5,189,457	\$ 5,060,471	\$ 5,566,842	\$ 5,741,071	\$ 5,693,369
Penalty and interest	22,707	47,393	48,230	47,121	28,734
Investment income	61,384	34,545	12,994	4,167	4,371
Other income	-	-	3,296	5,268	10
Total revenues	<u>5,273,548</u>	<u>5,142,409</u>	<u>5,631,362</u>	<u>5,797,627</u>	<u>5,726,484</u>
Expenditures					
Current:					
Contracted services	67,568	72,873	75,041	78,670	68,626
Other expenditures	11,659	20,431	27,073	21,398	13,725
Debt service:					
Principal retirement	900,000	890,000	885,000	870,000	850,000
Interest and fees	839,155	865,620	890,743	915,534	937,957
Debt issuance costs	12,180	-	-	-	-
Contractual obligation	<u>3,269,831</u>	<u>3,542,610</u>	<u>3,859,747</u>	<u>3,837,073</u>	<u>3,524,343</u>
Total expenditures	<u>5,100,393</u>	<u>5,391,534</u>	<u>5,737,604</u>	<u>5,722,675</u>	<u>5,394,651</u>
Excess (Deficiency) of Revenues Over Expenditures	173,155	(249,125)	(106,242)	74,952	331,833
Fund Balance, Beginning of Year	<u>3,825,479</u>	<u>4,074,604</u>	<u>4,180,846</u>	<u>4,105,894</u>	<u>3,774,061</u>
Fund Balance, End of Year	<u>\$ 3,998,634</u>	<u>\$ 3,825,479</u>	<u>\$ 4,074,604</u>	<u>\$ 4,180,846</u>	<u>\$ 4,105,894</u>

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
98.4 %	98.4 %	98.8 %	99.0 %	99.4 %
0.4	0.9	0.9	0.8	0.5
1.2	0.7	0.2	0.1	0.1
<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
1.3	1.4	1.3	1.4	1.2
0.2	0.4	0.5	0.3	0.2
17.1	17.3	15.7	15.0	14.8
15.9	16.8	15.8	15.8	16.4
0.2	-	-	-	-
<u>62.0</u>	<u>68.9</u>	<u>68.6</u>	<u>66.2</u>	<u>61.6</u>
<u>96.7</u>	<u>104.8</u>	<u>101.9</u>	<u>98.7</u>	<u>94.2</u>
<u><u>3.3 %</u></u>	<u><u>(4.8) %</u></u>	<u><u>(1.9) %</u></u>	<u><u>1.3 %</u></u>	<u><u>5.8 %</u></u>

Cinco Southwest Municipal Utility District No. 3
Board Members, Key Personnel and Consultants
Year Ended May 31, 2019

Complete District mailing address:	Cinco Southwest Municipal Utility District No. 3 Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027	
District business telephone number:	713.860.6400	
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):		July 15, 2019
Limit on fees of office that a director may receive during a fiscal year:		\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
A. David Schwarz III	Elected 05/16- 05/20	\$ 1,800	\$ 76	President
Blair Bozoarth	Appointed 02/18- 05/22	2,250	457	Vice President
James Blake	Elected 05/16- 05/20	1,500	65	Secretary
Talytha Webb	Elected 05/18- 05/22	2,250	116	Assistant Secretary
Lewis White	Appointed 09/18- 05/22	900	68	Assistant Secretary
Richard Patrick	Elected 05/18- 09/18	1,650	927	Resigned

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

Cinco Southwest Municipal Utility District No. 3
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2019

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	04/12/07	\$ 64,298	General Counsel
BGE, Inc.	09/20/12	28,761	Engineer
BKD, LLP	06/20/08	16,200	Auditor
FMataska, Inc.	04/12/07	11,867	Bookkeeper
Fort Bend Central Appraisal District	Legislative Action	41,293	Appraiser
Inframark, LLC	04/12/07	766,084	Operator
Masterson Advisors, LLC	04/23/18	0	Financial Advisor
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	11/01/12	4,779	Delinquent Tax Attorney
Utility Tax Service, LLC	04/12/07	33,105	Tax Assessor/ Collector
Investment Officer			
Fran Matuska	04/12/07	N/A	Bookkeeper

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

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