

OFFICIAL STATEMENT DATED MAY 12, 2020

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401 AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE "LEGAL MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

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

NEW ISSUE-Book-Entry Only

Insured Rating: S&P: "AA" (stable outlook)
Moody's: "A2" (stable outlook)
Underlying Rating: Moody's "Baa1"
See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" herein.

\$1,360,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX REFUNDING BONDS
SERIES 2020

Dated Date: June 1, 2020

Due: September 1, as shown below

Principal of the bonds described above (the "Bonds") will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar, initially, Regions Bank, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from June 1, 2020, and will be payable on March 1 and September 1 of each year commencing September 1, 2020, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only in denominations of \$5,000 each or integral multiples thereof. The Bonds mature and 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 (as defined herein under "BOOK-ENTRY-ONLY SYSTEM") of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar, as herein defined, directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY-ONLY SYSTEM."



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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due	CUSIP	Principal	Interest	Initial Reoffering	Due	CUSIP	Principal	Interest	Initial Reoffering
<u>Sept. 1</u>	<u>Number (a)</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield (c)</u>	<u>Sept. 1</u>	<u>Number (a)</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield (c)</u>
2021	41421F KS9	\$ 110,000	4.000 %	1.530 %	2024	41421F KV2	\$ 75,000	4.000 %	1.730 %
2022	41421F KT7	70,000	4.000	1.580	2025	41421F KW0	75,000	4.000	1.820
2023	41421F KU4	70,000	4.000	1.620	2026	41421F KX8	80,000	4.000	1.900

\$250,000 Term Bonds due September 1, 2029 (b), 41421F LA7 (a), 2.000% Interest Rate, 2.140% Yield (c)

\$335,000 Term Bonds due September 1, 2032 (b), 41421F LD1 (a), 2.250% Interest Rate, 2.470% Yield (c)

\$295,000 Term Bonds due September 1, 2034 (b), 41421F LF6 (a), 2.250% Interest Rate, 2.600% Yield (c)

- (a) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and will be included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter (as herein defined) shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (b) 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 sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed. Accrued interest from June 1, 2020 is to be added to the price.

The Bonds, when issued, will constitute valid and legally binding obligations of Harris County Municipal Utility District No. 401 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Marks Richardson PC, Bond Counsel, Houston, Texas. Certain legal matters will be passed on for the Underwriter by McCall, Parkhurst & Horton L.L.P., Houston, Texas, Underwriter's Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about June 17, 2020.

SAMCO CAPITAL

TABLE OF CONTENTS

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS	1
USE OF INFORMATION IN OFFICIAL STATEMENT	2
SALE AND DISTRIBUTION OF THE BONDS	3
OFFICIAL STATEMENT SUMMARY	4
SELECTED FINANCIAL INFORMATION	8
PLAN OF FINANCING	9
THE BONDS	12
BOOK-ENTRY-ONLY SYSTEM	17
THE DISTRICT	18
THE DEVELOPERS	19
MANAGEMENT	20
THE SYSTEM	21
WATER AND SEWER OPERATIONS	23
FINANCIAL STATEMENT	24
ESTIMATED OVERLAPPING DEBT STATEMENT	25
TAX DATA	26
TAX PROCEDURES	28
INVESTMENT CONSIDERATIONS	32
MUNICIPAL BOND RATING	39
MUNICIPAL BOND INSURANCE	39
LEGAL MATTERS	41
VERIFICATION OF MATHEMATICAL CALCULATIONS	44
NO MATERIAL ADVERSE CHANGE	44
NO-LITIGATION CERTIFICATE	44
PREPARATION OF OFFICIAL STATEMENT	45
UPDATING THE OFFICIAL STATEMENT	46
CERTIFICATION OF OFFICIAL STATEMENT	46
CONTINUING DISCLOSURE OF INFORMATION	46
MISCELLANEOUS	47
INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS OF THE DISTRICT	
FOR FISCAL YEAR ENDED JULY 31, 2019	APPENDIX A
SPECIMEN MUNICIPAL BOND INSURANCE POLICY	APPENDIX B

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Marks Richardson PC, 3700 Buffalo Speedway, Suite 830, Houston, Texas 77098 upon payment of the costs of duplication therefor.

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

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

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$1,354,531.58 (representing the par amount of the Bonds of \$1,360,000.00, plus a net premium on the Bonds of \$13,964.70, less an Underwriter’s discount of \$19,433.12) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

Prices and Marketability

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

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

THE FINANCING

<i>The Issuer...</i>	Harris County Municipal Utility District No. 401 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”
<i>The Issue...</i>	\$1,360,000 Harris County Municipal Utility District No. 401, Unlimited Tax Refunding Bonds, Series 2020, dated June 1, 2020 (the “Bonds”). Interest on the Bonds will accrue from June 1, 2020, and will be payable on March 1 and September 1 of each year commencing September 1, 2020 until maturity or prior redemption. The Bonds mature serially on September 1 in each year from 2021 through 2026, both inclusive, and as term bonds on September 1 in each of the years 2029, 2032 and 2034 (the “Term Bonds”) in the respective amounts and bear interest at the rates for each maturity shown on the cover page hereof. The Bonds maturing on September 1, 2027, are subject to optional redemption, in whole or, from time to time, in part, on September 1, 2026, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. If less than all the Bonds are redeemed, the maturities and amounts thereof to be redeemed shall be selected by the District in integral multiples of \$5,000 in any one maturity. If less than all the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected by DTC, as defined herein, in accordance with its procedures. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”
<i>Book-Entry Only...</i>	The Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”
<i>Authority for Issuance...</i>	At an election held within the District on November 2, 2004, voters of the District authorized a total of \$59,520,000 principal amount in unlimited tax bonds for the purpose of refunding bonds of the District. The Bonds are issued by the District pursuant to said authorization and to the terms and provisions of the Bond Order (as hereinafter defined), Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; and Chapters 49 and 54 of the Texas Water Code, as amended; and City of Houston Ordinance No. 97-416. See “THE BONDS— Authority for Issuance”.
<i>Source of Payment...</i>	The Bonds and the Remaining Outstanding Bonds (as hereinafter defined) are payable from a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. See “THE BONDS—Source and Security for Payment.”
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds and lawfully available District funds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund \$1,265,000 principal amount of the Outstanding Bonds (as hereinafter defined) in order to achieve net savings in the District's annual debt service expense. See “PLAN OF FINANCING.”
<i>Payment Record...</i>	The District has previously issued \$41,675,000 principal amount of unlimited tax bonds and \$5,185,000 principal amount of unlimited tax refunding bonds. A total of \$37,860,000 principal amount of such bonds is currently outstanding (the “Outstanding Bonds”). See “INVESTMENT CONSIDERATIONS—Future Debt.” The District has timely paid its debt service on the Outstanding Bonds.

*Qualified Tax-Exempt
Obligations...*

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

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

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service ("Moody's") will assign municipal bond ratings of "AA" (stable outlook) and "A2" (stable outlook), respectively, to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. ("AGM"). Moody's has also assigned an underlying credit rating of "Baa1" on the Bonds. See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE."

Bond Counsel...

Marks Richardson PC, Houston, Texas.

Underwriter's Counsel...

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

Financial Advisor...

Masterson Advisors LLC, Houston, Texas.

Paying Agent/Registrar...

Regions Bank, Houston, Texas.

Escrow Agent...

Regions Bank, Houston, Texas.

Verification Agent...

Public Finance Partners LLC, Minneapolis, Minnesota.

THE DISTRICT

Description...

The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (the "Commission"), dated August 10, 2004, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 505 acres of land. See "THE DISTRICT."

Location...

The District is located in Harris County, approximately 25 miles north of the central downtown business district of the City of Houston. The District lies northwest of Boudreaux Road, southwest of FM 2920 and southeast of Spell Road. The District is located within the extraterritorial jurisdiction of the City of Houston, and within the boundaries of the Klein Independent School District. See "THE DISTRICT."

*Infectious Disease Outlook
(COVID-19)...*

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. As described herein under "INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19)", federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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

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

The District continues to monitor the spread of COVID-19 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.

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

The greater Houston area, including the District, has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to the District's Engineer, the District's System did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, according to the District's Developers (defined herein), no residences within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

Status of Development...

Approximately 382 acres of land within the District have been developed into Inverness Estates, Sections 1 through 9, Reserve at Inverness, Section 2 and Albury Trails Estates, Sections 1 through 4, which collectively encompass 1,250 single-family residential lots. As of March 31, 2020, there were 1,162 completed and occupied homes, 2 completed and unoccupied homes, 9 homes listed in a builder's name and 77 vacant lots.

In addition to the development described above, the District has approximately 118 acres of land contained in easements, rights-of-way, detention ponds and central utility plant sites. Approximately 6 acres have been developed as parks and recreational facilities or recorded as a recreational reserve. There is no developable land in the District not provided with water, sanitary sewer and drainage facilities.

Homebuilding Program...

Harrisburg Homes is building homes in Albury Trails Estates, Sections 3 and 4 that range in sales price from approximately \$227,990 to \$379,990.

Developers...

Inverness Estates, Sections 1 through 9 have been developed by 2920 Venture, Ltd. ("2920 Venture"). 2920 Venture is a Texas limited partnership, created solely for the purpose of owning and developing approximately 286 acres in the District. GAC Management Co., Ltd., a Texas limited partnership, is the general partner of 2920 Venture. Two limited partnerships, one of which is managed by Great America Companies, Inc., a Texas corporation, and the other of which is managed by McAlister Company, are the limited partners of 2920 Venture.

55 Associates, Ltd., a Texas limited partnership ("55 Associates"), has developed the Reserve at Inverness, Section 2. Newland Investment, Ltd., a Texas limited partnership ("Newland"), is the general partner of 55 Associates. Great America Associates, Inc. is the general partner of Newland.

Albury Trails Estates, Sections 1 through 4 have been developed by Willow Creek Development Company, Limited (“Willow Creek”). Willow Creek is a Texas limited partnership whose general partner is Ardliet Corporation, a Texas corporation, which is wholly owned by Randal and Alan Hendricks.

2920 Venture, 55 Associates and Willow Creek are collectively referred to herein as the “Developers.” See “THE DEVELOPERS.”

INVESTMENT CONSIDERATIONS

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

SELECTED FINANCIAL INFORMATION

2019 Certified Taxable Assessed Valuation.....	\$346,413,899	(a)
Estimated Assessed Valuation as of October 1, 2019	\$353,662,005	(b)
Gross Direct Debt Outstanding	\$37,955,000	(c)
Estimated Overlapping Debt	19,317,841	(d)
Total Gross Direct Debt and Estimated Overlapping Debt	\$57,272,841	
Ratios of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation	10.96%	
Estimated Assessed Valuation as of October 1, 2019	10.73%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	16.53%	
Estimated Assessed Valuation as of October 1, 2019	16.19%	
Operating Fund Balance as of April 20, 2020	\$3,533,798	
Water, Sewer and Drainage Capital Projects Fund Balance as of April 20, 2020.....	\$928,659	
Park Capital Projects Fund Balance as of April 20, 2020	\$164,131	
Debt Service Fund Balance as of April 20, 2020	\$3,886,119	(e)
2019 District Tax Rate:		
Debt Service	\$0.7300	
Maintenance and Operations	0.2675	
Total.....	\$0.9975	
Average Annual Debt Service Requirement (2021-2043).....	\$2,228,131	(f)
Maximum Annual Debt Service Requirement (2025).....	\$2,598,554	(f)
Tax Rates Required to Pay Average Annual Debt Service (2021-2043) at a 95% Collection Rate		
Based upon 2019 Certified Taxable Assessed Valuation	\$0.68	
Based upon Estimated Assessed Valuation as of October 1, 2019.....	\$0.67	
Tax Rates Required to Pay Maximum Annual Debt Service (2025) at a 95% Collection Rate		
Based upon 2019 Certified Taxable Assessed Valuation	\$0.79	
Based upon Estimated Assessed Valuation as of October 1, 2019.....	\$0.78	
Status of Development as of March 31, 2020:		
Completed and Occupied Single Family Homes.....	1,162	
Completed and Unoccupied Single family Homes	2	
Builder Connections.....	9	
Vacant Lots	77	
Estimated Population	4,060	(g)

- (a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
- (b) As estimated by the Appraisal District as of October 1, 2019 for information purposes only. The 2019 Taxable Assessed Valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2019 to October 1, 2019. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and therefore this estimate will not be the basis for any tax levy by the District. See "TAX PROCEDURES."
- (c) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (d) See "ESTIMATED OVERLAPPING DEBT STATEMENT."
- (e) The District will contribute \$25,000 of available debt service funds towards the purpose for which the Bonds are being issued. Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.
- (f) See "PLAN OF FINANCING—Debt Service Requirements."
- (g) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

\$1,360,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
(A political subdivision of the State of Texas located within Harris County)

**UNLIMITED TAX REFUNDING BONDS
SERIES 2020**

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 401 (the "District") of its \$1,360,000 Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapter 1207 of the Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended, City of Houston Ordinance No. 97-416, an election held within the District, and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board").

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of documents may be obtained from the District c/o Marks Richardson PC, 3700 Buffalo Speedway, Suite 830, Houston, Texas 77098, upon payment of the cost of duplication.

PLAN OF FINANCING

Purpose

The proceeds of the Bonds and lawfully available debt service funds are being used to refund and defease a portion of the District's Outstanding Bonds as listed below in "Refunded Bonds" totaling \$1,265,000 (the "Refunded Bonds") in order to achieve a net savings in the District's debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See "Sources and Uses of Funds" below. A total of \$36,595,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds").

Outstanding Bonds

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

Series	Original Principal Amount	Principal Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
Unlimited Tax Bonds, Series 2009	\$ 2,140,000	\$ 180,000	\$ 95,000	\$ 85,000
Unlimited Tax Bonds, Series 2011	1,520,000	1,265,000	1,170,000	95,000
Unlimited Tax Bonds, Series 2013	2,540,000	2,340,000	-	2,340,000
Unlimited Tax Bonds, Series 2014	4,815,000	4,415,000	-	4,415,000
Unlimited Tax Bonds, Series 2015	7,800,000	7,315,000	-	7,315,000
Unlimited Tax Refunding Bonds, Series 2016	5,185,000	4,655,000	-	4,655,000
Unlimited Tax Bonds, Series 2016	6,000,000	5,400,000	-	5,400,000
Unlimited Tax Bonds, Series 2017	8,200,000	7,900,000	-	7,900,000
Unlimited Tax Bonds, Series 2020	1,030,000	1,030,000	-	1,030,000
Unlimited Tax Park Bonds, Series 2020A	3,360,000	3,360,000	-	3,360,000
Total	\$ 42,590,000	\$ 37,860,000	\$ 1,265,000	\$ 36,595,000

Refunded Bonds

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

<u>Maturity Date</u> <u>September 1</u>	<u>Principal Amounts</u> <u>Series 2009</u>	<u>Principal Amounts</u> <u>Series 2011</u>
2021	\$ 95,000	
2022	-	\$ 55,000
2023	-	55,000
2024	-	60,000
2025	-	65,000
2026	-	70,000
2027	-	70,000
2028	-	75,000
2029	-	80,000
2030	-	85,000
2031	-	95,000
2032	-	150,000
2033	-	150,000
2034	-	160,000
	<u>\$ 95,000</u>	<u>\$ 1,170,000</u>
Redemption Date:	June 23, 2020	September 1, 2020

Escrow Agreement

The Refunded Bonds, and the interest due thereon, are to be paid on their scheduled interest payment dates until final payment or their redemption dates, from funds to be deposited with Regions Bank, Houston, Texas, as escrow agent (the "Escrow Agent").

The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the "Escrow Agreement") to be dated as of the date of the sale of the Bonds but effective on the date of delivery of the Bonds (expected to be June 17, 2020). The Bond Order further provides that from the proceeds of the sale of the Bonds, along with certain other lawfully 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 Refunded Bonds. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS." Such funds will be held by the Escrow Agent in a segregated escrow account (the "Escrow Fund") and a portion of such funds will be used to purchase United States Treasury Obligations or open market securities meeting the standards set forth by the law (the "Escrowed Securities") maturing at such times and amounts as will be sufficient to pay scheduled payments on the Refunded Bonds on their redemption dates. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds or the Remaining Outstanding Bonds.

Defeasance of the Refunded Bonds

By the deposit of proceeds of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the orders authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in the Escrow Fund.

Sources and Uses of Funds

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, along with the transfer from the debt service fund, will be applied as follows:

Sources of Funds:	
Principal Amount of the Bonds	\$1,360,000.00
Plus: Net Premium on the Bonds	13,964.70
Transfer from Debt Service Fund	<u>25,000.00</u>
Total Sources of Funds.....	\$1,398,964.70
Uses of Funds:	
Deposit to Escrow Fund.....	\$1,295,862.18
Issuance Expenses and Underwriters' Discount (a).....	<u>103,102.52</u>
Total Uses of Funds	\$1,398,964.70

(a) Includes municipal bond insurance premium.

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds, plus the debt service on the Bonds (\$1,360,000 principal amount).

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Series 2020 Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2020	\$ 1,843,846 (a)	\$ 32,301		\$ 9,594	\$ 9,594	\$ 1,821,139
2021	2,520,361	159,601	\$ 110,000	38,375	148,375	2,509,135
2022	2,508,643	113,308	70,000	33,975	103,975	2,499,310
2023	2,535,105	110,695	70,000	31,175	101,175	2,525,585
2024	2,550,129	113,000	75,000	28,375	103,375	2,540,504
2025	2,613,179	115,000	75,000	25,375	100,375	2,598,554
2026	2,597,741	116,750	80,000	22,375	102,375	2,583,366
2027	2,580,804	113,250	80,000	19,175	99,175	2,566,729
2028	2,572,554	114,750	85,000	17,575	102,575	2,560,379
2029	2,557,029	116,000	85,000	15,875	100,875	2,541,904
2030	2,543,923	117,000	90,000	14,175	104,175	2,531,098
2031	2,533,260	122,750	95,000	12,150	107,150	2,517,660
2032	2,564,344	173,000	150,000	10,013	160,013	2,551,356
2033	2,551,369	165,500	145,000	6,638	151,638	2,537,506
2034	2,545,713	168,000	150,000	3,375	153,375	2,531,088
2035	2,251,038	-	-	-	-	2,251,038
2036	2,204,913	-	-	-	-	2,204,913
2037	2,215,925	-	-	-	-	2,215,925
2038	2,179,813	-	-	-	-	2,179,813
2039	2,036,313	-	-	-	-	2,036,313
2040	2,022,719	-	-	-	-	2,022,719
2041	1,306,500	-	-	-	-	1,306,500
2042	1,066,625	-	-	-	-	1,066,625
2043	369,000	-	-	-	-	369,000
Total	\$ 53,270,841	\$ 1,850,904	\$ 1,360,000	\$ 288,219	\$ 1,648,219	\$ 53,068,156

(a) Excludes the District's March 1, 2020 debt service payment in the amount of \$570,827.53.

Maximum Annual Debt Service Requirement (2025).....	\$2,598,554
Average Annual Debt Service Requirements (2021-2043)	\$2,228,131

THE BONDS

General

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

Description

The Bonds will be dated June 1, 2020, with interest payable on September 1, 2020, and on each March 1 and September 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from June 1, 2020, and thereafter, from the most recent Interest Payment Date. The Bonds mature on September 1 of the years and in the amounts and accrue interest at the rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the Book-Entry-Only System described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At an election held within the District on November 2, 2004, voters of the District authorized a total of \$59,520,000 principal amount of unlimited tax bonds for the purpose of refunding bonds of the District. The Bonds are issued by the District pursuant to said election and the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; and City of Houston Ordinance No. 97-416.

Source of and Security for Payment

The Bonds, together with the Remaining Outstanding Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See "TAX PROCEDURES." Investment in the Bonds is subject to special investment considerations, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any political subdivision or entity other than the District.

Funds

The Bond Order confirms the establishment of the District's Debt Service Fund (the "Debt Service Fund"), which Debt Service Fund was created and established pursuant to the orders of the Board of Directors of the District authorizing the issuance of the Outstanding Bonds. Accrued interest on the Bonds will be deposited from the proceeds of the sale of the Bonds into the Debt Service Fund. The proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund. The Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Bonds, the Remaining Outstanding Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds, the Remaining Outstanding Bonds and any of the District's duly authorized additional bonds payable in whole or part from taxes. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, the Remaining Outstanding Bonds and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Record Date

The record date for payment of the interest on any regularly scheduled interest payment date is defined as the 15th day of the month (whether or not a business day) preceding such interest payment date.

Redemption Provisions

Optional Redemption: The 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 plus unpaid accrued interest from the most recent Interest Payment Date to the date fixed for redemption.

If fewer than all of the Bonds are optionally redeemed at any time, the maturities and amounts of Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000 in principal series and amount, and if fewer than all of the Bonds of a given maturity are selected to be redeemed, the specific Bonds within a maturity shall be selected by lot or other customary method (or by the DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Mandatory Redemption: The Term Bonds due on September 1 in each of the years 2029, 2032 and 2034 (the "Term Bonds") are also subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on September 1 in the years ("Mandatory Redemption Dates") and in the amounts set forth below, at a redemption price of par plus accrued interest to the date of redemption:

\$250,000 Term Bonds		\$335,000 Term Bonds		\$295,000 Term Bonds	
Due September 1, 2029		Due September 1, 2032		Due September 1, 2034	
Mandatory	Principal	Mandatory	Principal	Mandatory	Principal
Redemption Date	Amount	Redemption Date	Amount	Redemption Date	Amount
2027	\$ 80,000	2030	\$ 90,000	2033	\$ 145,000
2028	85,000	2031	95,000	2034 (maturity)	150,000
2029 (maturity)	85,000	2032 (maturity)	150,000		

The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of mailing of notice of such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

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 maturities 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.

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 therefore a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Method of Payment of Principal and Interest

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

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State of Texas for the purpose of maintaining the Register on behalf of the District.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

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.

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of \$54,675,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. The District currently has \$16,360,000 principal amount of unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized a total of \$59,520,000 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. After the issuance of the Bonds, the District will have \$58,675,000 principal amount of unlimited tax refunding bonds authorized but unissued. The District's voters have also authorized the issuance of a total of \$4,845,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts. The District currently has \$1,485,000 principal amount of unlimited tax bonds authorized but unissued for such purpose. See “Financing Recreational Facilities” below.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. Issuance of additional bonds could dilute the investment security for the Bonds.

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

Financing Road Facilities

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

Financing Recreational Facilities

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

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the Commission in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed \$0.10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

At an election held within the District on November 2, 2004, voters of the District authorized a total of \$4,845,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts. The District currently has \$1,485,000 principal amount unlimited tax bonds authorized but unissued for said facilities. At the same election, voters of the District authorized a maintenance tax not to exceed \$0.10 per each \$100 assessed valuation for maintenance of recreational facilities.

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

Annexation

Under existing Texas law, since the District lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston, the District may be annexed by the City of Houston without the District's consent, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements include the requirement that the City of Houston hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever attempt to annex the District for full purposes and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Consolidation

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

No Arbitrage

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order 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. Certain traditional legal remedies may also be unavailable.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages. In the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if such a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies."

Defeasance

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

Upon such deposit as described above, such Bonds shall no longer be regarded to be 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 a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

THE DISTRICT

General

The District is a municipal utility district created by an order of the Commission, dated August 10, 2004, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the Commission.

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

The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to finance the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, road and fire-fighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City of Houston and filed in the real property records of Harris County. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

Description and Location

The District is located in Harris County, approximately 25 miles north of the central downtown business district of the City of Houston. The District lies northwest of Boudreaux Road, southwest of FM 2920, and southeast of Spell Road. The District is located within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Klein Independent School District. The District consists of approximately 505 acres of land.

Residential Development

Approximately 382 acres of land within the District have been developed into Inverness Estates, Sections 1 through 9, Reserve at Inverness, Section 2 and Albury Trails Estates, Sections 1 through 4, which collectively encompass 1,250 single-family residential lots. As of March 31, 2020, there were 1,162 completed and occupied homes, 2 completed and unoccupied homes, 9 homes listed in a builder's name and 77 vacant lots.

Undeveloped Acreage

In addition to the development described above, approximately 118 acres of land within the District include easements, rights-of-way, detention ponds and central utility plant sites. Approximately 6 acres have been developed as parks and recreational facilities or recorded as a recreational reserve. There is no developable land in the District not provided with water, sanitary sewer, and drainage facilities.

Homebuilding Program

Harrisburg Homes is building homes in Albury Trails Estates, Sections 3 and 4 that range in sales price from approximately \$227,990 to \$379,990.

THE DEVELOPERS

Role of a Developer

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the Commission to pave streets, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

None of the Developers (hereinafter defined) nor any of their affiliates, is obligated to pay principal of or interest on the Bonds. Furthermore, none of the Developers have a binding commitment to the District to carry out any plan of development and each of the Developers may sell or otherwise dispose of its property within the District, or any other assets, at any time, and the furnishing of information relating to the proposed development by the Developers should not be interpreted as such a commitment. See "INVESTMENT CONSIDERATIONS."

Prospective Bond purchasers should note that the prior real estate experience of any of the Developers should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. See "INVESTMENT CONSIDERATIONS."

2920 Venture, Ltd.

Inverness Estates, Sections 1 through 9 have been developed by 2920 Venture, Ltd. ("2920 Venture"). 2920 Venture is a Texas limited partnership, created solely for the purpose of owning and developing approximately 286 acres in the District. The owner of 2920 Venture is comprised of two limited partnerships, one of which is managed by Great America Companies, Inc. ("GACI") and the other of which is managed by McAlister Company ("McAlister"). GACI is a real estate development company that has been in business since 1972 and has been developing subdivisions in San Antonio, Austin and Houston since 1991. 2920 Venture owns no undeveloped land in the District.

Willow Creek Development Company, Limited

Willow Creek Development Company, Limited ("Willow Creek"), a Texas limited partnership, has developed Albury Trails Estates, Sections 1 through 4. The general partner of Willow Creek is Ardliet Corporation, a Texas corporation, which is owned by Randal and Alan Hendricks. Randal and Alan Hendricks, through an affiliated entity, Hendricks Interests LLC, and various limited partnerships, have developed other real estate projects in the Greater Houston area. Willow Creek owns no undeveloped land in the District.

55 Associates, Ltd.

55 Associates, Ltd., a Texas limited partnership ("55 Associates"), has developed 49 acres of land in the District as the Reserve at Inverness, Section 2. Newland Investment, Ltd., a Texas limited partnership ("Newland"), is the general partner of 55 Associates. Great America Associates, Inc., a Texas corporation, is the general partner of Newland. 55 Associates owns no undeveloped land in the District.

2920 Venture, 55 Associates and Willow Creek are collectively referred to herein as the "Developers."

MANAGEMENT

Board of Directors

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Blair Fesler	President	May 2024
Mark Atchison	Vice President	May 2022
Sandee Wright	Secretary	May 2024
Raul Solis	Asst. Vice President/Asst. Secretary	May 2024
Jordan Thomas	Asst. Vice President/Asst. Secretary	May 2022

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

Tax Assessor/Collector

Land and improvements in the District are appraised for taxation by the Harris County Appraisal District. The District contracts with Bob Leared Interests to act as Tax Assessor/Collector for the District.

System Operator

The District contracts with Municipal Operations & Consulting, Inc. for maintenance and operation of the District's system (the "Operator").

Bookkeeper

The District contracts with District Data Services, Inc. for bookkeeping services for the District.

Engineer

The District's consulting engineer is Van De Wiele and Vogler, Inc. (the "Engineer").

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which audited financial statements are filed with the Commission. The financial statements of the District, as of July 31, 2019, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's July 31, 2019, audited financial statements.

Bond Counsel and General Counsel

Marks Richardson PC ("Bond Counsel") serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Marks Richardson PC serves as general counsel to the District on matters other than the issuance of bonds.

Financial Advisor

Masterson Advisors LLC (the "Financial Advisor") serves as financial advisor to the District. The fee to be paid the Financial Advisor is contingent upon sale and delivery of the Bonds.

THE SYSTEM

Regulation

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

Water Distribution and Sanitary Sewer Collection and Drainage System

The District's System includes water, sanitary sewer and drainage facilities to serve the subdivisions described under the section "THE DISTRICT—Residential Development."

Water Supply

The District owns and operates Water Plant No. 1. Water Plant No. 1 includes a water well with a current rated capacity of 1,154 gallons per minute (gpm), two (2) 20,000 gallon hydropneumatic tanks, two (2) 500,000 gallon ground storage tanks, and booster pump capacity of 3,500 gpm. According to the Engineer, after completion of the expansion, the District's water plant facilities is sufficient to serve 1,500 equivalent single family connections (esfcs). The District is currently serving 1,168 esfcs.

The District has an emergency water interconnect with Dowdell Public Utility District.

Subsidence District Requirements

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

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

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

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

Wastewater Treatment Facilities

Wastewater treatment for the District is provided by a 300,000 gallon per day ("gpd") wastewater treatment plant owned and operated by the District. According to the District's Engineer, the wastewater treatment plant is sufficient to serve 1,250 esfc based on the approved usage of 240 gpd per esfc. The District is currently serving 1,162 esfc.

100-Year Flood Plain

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

The FEMA FIRM Panel No. 48201C0230L, effective June 18, 2007, showed approximately 127 acres of the District to be located within the 100-year floodplain and approximately 35 acres within the 500-year floodplain. However, since June of 2007, portions of the District were removed from the floodplain with a Letter of Map Revision (LOMR) and several Letters of Map Revision Based on Fill (LOMR-F). Portions of Albury Trails Estates, Sections 2, 3 and 4 were filled and removed from the 100-year floodplain with two LOMR-Fs, which were approved by FEMA (June 18, 2008 and December 4, 2008). Portions of Inverness Estates were removed from the 100-year floodplain via an approved LOMR (October 30, 2008) based on new topographic data and hydraulic analysis that lowered the base flood elevation of Willow Creek. Inverness Estates, Sections 3 and 6 (approximately 1.8 acres) were filled and removed from the 100-year floodplain and the LOMR-F was approved by FEMA (June 9, 2009). Inverness Estates, Section 9 (approximately 25.92 acres), was filled and removed from the 100-year floodplain and the LOMR-F was approved by FEMA (July 22, 2015). Currently, none of the developed lots within Inverness Estates Section 1 through 9, Albury Trails Section 1 through 3, and Reserve at Inverness, Section 2 are located within the 100-year floodplain. The existing detention ponds within the District are located within the 100-year floodplain.

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of 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. 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.

WATER AND SEWER OPERATIONS

General

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. However, net revenues, if any, derived from 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 the payment of debt service on the Bonds and the Remaining Outstanding 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 or the Remaining Outstanding Bonds.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and, in all instances, exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements and in the case of the financial information for the period August 1, 2019 through January 31, 2020, the District's bookkeeping records. Reference is made to such records and statements for further and more complete information.

	Unaudited 8/1/2019 thru 1/31/2020 (a)	Fiscal Year Ended July 31			
		2019	2018	2017	2016
REVENUES:					
Property Taxes	\$ 764,973	\$ 902,107	\$ 902,007	\$ 820,528	\$ 864,512
Water Service	225,072	388,160	421,342	408,429	360,439
Wastewater Service	239,250	464,751	445,713	414,227	379,149
Regional Water Authority Fee	363,770	523,739	538,140	475,257	329,008
Penalty and Interest	11,814	18,129	18,662	17,207	15,671
Tap Connection and Inspection Fees	10,340	36,242	64,286	106,385	88,605
Investment Revenues	39,007	59,595	27,140	4,078	2,487
Miscellaneous	-	24,228	11,798	21,346	26,667
TOTAL REVENUES	\$ 1,654,226	\$ 2,416,951	\$ 2,429,088	\$ 2,267,457	\$ 2,066,538
EXPENDITURES:					
Professional Fees	\$ 114,485	\$ 123,316	\$ 200,174	\$ 192,927	\$ 143,335
Contracted Services	270,726	520,751	467,122	482,671	401,998
Utilities	51,175	98,932	111,579	74,889	92,719
Regional Water Authority Assessment	344,779	540,450	577,190	496,635	360,932
Repairs and Maintenance	166,174	391,139	679,608	527,057	301,160
Other Expenditures	30,412	129,380	167,523	174,186	172,775
Capital Outlay	-	62,987	9,898	48,349	26,670
Bond Issuance Costs	-	-	-	-	-
TOTAL EXPENDITURES	\$ 977,751	\$ 1,866,955	\$ 2,213,094	\$ 1,996,714	\$ 1,499,589
NET REVENUES	\$ 676,475	\$ 549,996	\$ 215,994	\$ 270,743	\$ 566,949
OTHER FINANCING SOURCES (USES)					
Transfers In	\$ -	\$ -	\$ 85,009	\$ 25,029	\$ 42,700
FUND BALANCE,					
BEGINNING OF PERIOD	\$ 2,907,552	\$ 2,357,556	\$ 2,056,553	\$ 1,760,781	\$ 1,151,132
FUND BALANCE, END OF PERIOD	\$ 3,584,027	\$ 2,907,552	\$ 2,357,556	\$ 2,056,553	\$ 1,760,781

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

FINANCIAL STATEMENT

2019 Certified Taxable Assessed Valuation.....	\$346,413,899	(a)
Estimated Assessed Valuation as of October 1, 2019	\$353,662,005	(b)
Gross Direct Debt Outstanding	\$37,955,000	(c)
Estimated Overlapping Debt	19,317,841	(d)
Total Gross Direct Debt and Estimated Overlapping Debt	\$57,272,841	
Ratios of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation	10.96%	
Estimated Assessed Valuation as of October 1, 2019	10.73%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	16.53%	
Estimated Assessed Valuation as of October 1, 2019	16.19%	

Area of District – 505 Acres
Estimated 2020 Population – 4,060 (e)

- (a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
- (b) As estimated by the Appraisal District as of October 1, 2019 for information purposes only. The 2019 Taxable Assessed Valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2019 to October 1, 2019. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and therefore this estimate will not be the basis for any tax levy by the District. See "TAX PROCEDURES."
- (c) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (d) See "ESTIMATED OVERLAPPING DEBT STATEMENT."
- (e) Based upon 3.5 persons per occupied single-family residence.

Cash and Investment Balances (unaudited as of April 20, 2020)

Operating Fund	Cash and Temporary Investments	\$3,533,798
Water, Sewer and Drainage		
Capital Projects Fund	Cash and Temporary Investments	\$928,659
Park Capital Projects Fund	Cash and Temporary Investments	\$164,131
Debt Service Fund	Cash and Temporary Investments	\$3,886,119 (a)

- (a) The District will contribute \$25,000 of available debt service funds towards the purpose for which the Bonds are being issued. Neither Texas law nor the Bond Order require that the District maintain any particular sum in the Debt Service Fund.

District Investment Policy

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

ESTIMATED OVERLAPPING DEBT STATEMENT

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,885,182,125	2/29/2020	0.07%	\$ 1,319,627
Harris County Flood Control District.....	83,075,000	2/29/2020	0.07%	58,153
Harris County Department of Education.....	6,320,000	2/29/2020	0.07%	4,424
Harris County Hospital District.....	55,005,000	2/29/2020	0.07%	38,504
Port of Houston Authority.....	572,569,397	2/29/2020	0.07%	400,799
Klein Independent School District.....	1,098,240,000	2/29/2020	1.51%	16,583,424
Lone Star College System.....	570,569,397	2/29/2020	0.16%	912,911
Total Estimated Overlapping Debt.....				\$ 19,317,841
The District.....	37,955,000 (a)	Current	100.00%	37,955,000
Total Direct and Estimated Overlapping Debt...				\$ 57,272,841
Ratio of Estimated Direct and Overlapping Debt to 2019 Taxable Assessed Valuation.....				16.53%
Ratio of Estimated Direct and Overlapping Debt to October 1, 2019 Estimated Assessed Valuation.....				16.19%

(a) After issuance of the Bonds.

Overlapping Taxes for 2019

	2019 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (a)	\$ 0.616700
Klein Independent School District	\$ 1.360000
Harris County ESD No. 11	\$ 0.034707 (b)
Harris County ESD No. 15	\$ 0.045710 (b)
Harris County ESD No. 16	\$ 0.049500 (b)
Lone Star College System	\$ 0.107800
The District	<u>\$ 0.997500</u>
Total	\$ 3.16621

- (a) Includes Harris County, Harris County Hospital District, Harris County Department of Education, Harris County Flood Control District, and Port of Houston Authority.
- (b) Property owners either pay taxes to both Harris County ESD Nos. 11 and 16 or to Harris County ESD No. 15 depending on the location of their property. The total reflects the highest combination.

TAX DATA

Tax Collections

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

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of March 31, 2020 (a)	
				Amount	Percent
2015	\$ 227,589,324	\$ 1.1300	\$2,571,759	\$ 2,571,759	100.00%
2016	274,453,822	1.0500	2,881,766	2,881,751	100.00%
2017	298,915,634	1.0300	3,078,831	3,078,561	99.99%
2018	322,935,990	1.0100	3,261,805	3,261,604	99.99%
2019	345,937,786	0.9975	3,455,479	3,430,123	99.27%

(a) Unaudited collections.

Taxes are due October 1 (or when billed, if later) and become delinquent after January 31 of the following year. No split payments are allowed and no discounts are allowed.

Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$ 0.7300	\$ 0.7300	\$ 0.7300	\$ 0.7500	\$ 0.7500
Maintenance	0.2675	0.2800	0.3000	0.3000	0.3800
Total	\$ 0.9975	\$ 1.0100	\$ 1.0300	\$ 1.0500	\$ 1.1300

Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount).
 Maintenance: \$1.50 per \$100 Assessed Valuation
 Recreational: \$0.10 per \$100 Assessed Valuation for maintenance of recreational facilities

Debt Service Tax

The Board will covenant in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax which when added to other funds legally available to the District for payment of outstanding debt obligations is adequate to provide funds to pay the principal of and interest on such debt. See "THE BONDS—Authority for Issuance."

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Voters in the District have authorized the Board to levy such a maintenance tax in an amount not to exceed \$1.50 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and the Outstanding Bonds and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2019 in the amount of \$0.2675 per \$100 assessed valuation.

Principal Taxpayers

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the 2019 certified tax rolls which reflect ownership at January 1, 2019. A principal taxpayer list related to the Estimated Assessed Value as of October 1, 2019 is not available.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
Willow Creek Development	Land	\$ 2,992,050	0.86%
Centerpoint Energy HOU Ele	Personal Property	850,610	0.25%
Island Group Custom Homes (a)	Land, Improvements and Personal Property	844,906	0.24%
SPH Property Two LLC	Land and Improvements	786,873	0.23%
Gehan Homes LTD (a)	Land and Improvements	780,107	0.23%
Individual	Land and Improvements	599,131	0.17%
Individual	Land and Improvements	594,363	0.17%
Individual	Land and Improvements	591,923	0.17%
Individual	Land and Improvements	587,541	0.17%
Individual	Land and Improvements	585,000	0.17%
Total		\$ 9,212,504	2.66%

(a) A homebuilder in the District. See "THE DISTRICT."

Summary of Assessed Valuation

The following breakdown of the 2015 through 2019 Certified Taxable Assessed Valuations has been provided by the District's Tax Assessor/Collector based on information contained in the 2015 through 2019 tax rolls of the District. Differences in values from other information herein are due to differences in dates of information provided. A breakdown related to the Estimated Assessed Value as of October 1, 2019 is not available.

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 60,020,516	\$ 60,441,863	\$ 56,653,810	\$ 54,889,041	\$ 53,575,491
Improvements	296,070,770	270,102,045	248,378,135	224,750,462	182,245,721
Personal Property	2,026,745	2,320,419	1,964,404	2,571,329	2,624,094
Exemptions	(11,704,132)	(9,913,337)	(8,080,715)	(7,757,010)	(10,855,982)
Total	<u>\$ 346,413,899</u>	<u>\$ 322,950,990</u>	<u>\$ 298,915,634</u>	<u>\$ 274,453,822</u>	<u>\$ 227,589,324</u>

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2019 Certified Taxable Assessed Valuation and the Estimated Assessed Valuation as of October 1, 2019 and no use of debt service funds on hand and utilize tax rates necessary to pay the District's maximum annual debt service requirement on the Bonds. See "INVESTMENT CONSIDERATIONS—Impact on District Tax Rates."

Average Annual Debt Service Requirement (2021-2043).....	\$2,228,131
\$0.68 Tax Rate on the 2019 Certified Taxable Assessed Valuation at 95% collections.....	\$2,237,834
\$0.67 Tax Rate on the Estimated Assessed Valuation as of October 1, 2019 at 95% collections	\$2,251,059
Maximum Annual Debt Service Requirement (2025).....	\$2,598,554
\$0.79 Tax Rate on the 2019 Certified Taxable Assessed Valuation at 95% collections.....	\$2,599,836
\$0.78 Tax Rate on the Estimated Assessed Valuation as of October 1, 2019 at 95% collections	\$2,620,635

TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2020 tax year, the District has granted an exemption of \$15,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of a member of (i) a member of the armed forces or, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same

property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

General Residential Homestead Exemption

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The Property Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property. Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the 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.

District and Taxpayer Remedies

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

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

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2019, no land within the District was designated for agricultural use, open space, inventory deferment or timberland.

Tax Abatement

The City of Houston and Harris County may designate all or part of the District as a reinvestment zone, and the District, Harris County and (if it were to annex the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

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 (as to those provisions discussed herein) of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a district has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified herein as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all land, 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 in the district, 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 the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions.

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 in the district, subject to certain homestead exemptions, 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 the operation and maintenance tax rate that would impose 1.035 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a 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 imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, 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 the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions.

The District

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

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

INVESTMENT CONSIDERATIONS

General

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

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. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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

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

The District continues to monitor the spread of COVID-19 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.

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 or homebuilding activity 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 the District, has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to the District's Engineer, the District's System did not sustain any material damage and there was no interruption of water and sewer service. Further, according to the District's Developers, no residences 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

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

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market values of single-family residences and developed lots which are currently being marketed by the Developers to the builders for the construction of primary residences. The market value of such homes, properties and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See "THE DISTRICT—Residential Development."

Competition

The demand for and construction of single-family homes in the District, which is 25 miles from downtown Houston, could be affected by competition from other residential developments including other residential developments located in the southwestern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of builders in the sale of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Development and Home Construction in the District

As of March 31, 2020, approximately 77 developed lots within the District remained vacant. Future increases in value will result primarily from the construction of new homes. The District makes no representation with regard to whether or not the homebuilding programs will be successful. See "THE DISTRICT—Homebuilding Program" and "—Impact on District Tax Rates" below.

Landowner Obligation to the District

There are no commitments from or obligations of any Developer or other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed lots or developed tracts of land would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds the District will increase or maintain its taxable value.

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their ad valorem taxes. The 2019 Taxable Assessed Valuation of the District is \$346,413,899. After issuance of the Bonds, the maximum annual debt service requirement will be \$2,598,554 (2025) and the average annual debt service requirement will be \$2,228,131 (2021-2043). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.79 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$2,598,554 and a tax rate of \$0.68 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$2,228,131. The October 1, 2019 Estimated Assessed Valuation is \$353,662,005. Assuming no increase or decrease from the October 1, 2019 Estimated Assessed Valuation and no use of other funds other than tax collections, a tax rate of \$0.78 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$2,598,554 and a tax rate of \$0.67 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$2,228,131. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds based upon the 2019 Certified Taxable Assessed Valuation and the October 1, 2019 Estimated Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event major taxpayers do not pay their District taxes timely. Any increase in taxable values depends on the continuing construction and sale of homes and other taxable improvements within the District. See "TAX PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$16,360,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, the remaining \$1,485,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing recreational facilities, and the \$58,675,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of refunding the outstanding bonds of the District and any additional bonds which may be voted hereafter. See “THE BONDS—Issuance of Additional Debt”, “—Financing Parks and Recreational Facilities” and “—Financing Road Facilities.” The issuance of such obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities or recreational facilities must be approved by the Commission. The Developers have financed or are financing the engineering and construction costs of underground utilities as well as certain other District improvements. 2920 Venture, 55 Associates, and Willow Creek have been fully reimbursed for funds expended for design, construction, engineering and acquisition of District utilities. There are park and recreational facilities that have not been fully reimbursed, but may not yet be fully reimbursed due to the 1% of assessed value restriction on bonds for recreational facilities. The District can make no representation that any additional development will occur within the District. The Engineer has stated that the District’s authorized but unissued bonds will be adequate, under present land use projections, to finance facilities not yet acquired or constructed.

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

Environmental Regulations

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston-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. While the District is currently not subject to the MS4 Permit, if the District's inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

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

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

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

Tax Collections Limitations

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

Registered Owners' Remedies

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

Bankruptcy Limitation to Registered Owners' Rights

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

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

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

The District may not be placed into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Order on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "LEGAL MATTERS—Tax Exemption."

Marketability

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

Future and Proposed Legislation

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has entered into an agreement with Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P and “A2” (stable outlook) by Moody’s. See “MUNICIPAL BOND INSURANCE.”

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

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) and Moody’s Investors Service, Inc. (“Moody’s”) will assign municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. Moody’s has also assigned an underlying rating of “Baa1” to the Bonds. An explanation of the ratings may be obtained from the company furnishing each rating.

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

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

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

Current Financial Strength Ratings

On December 19, 2019, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On November 7, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

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

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Capitalization of AGM

At March 31, 2020:

- The policyholders' surplus of AGM was approximately \$2,573 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$997 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,997 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 (filed by AGL with the SEC on May 8, 2020).

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

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

Miscellaneous Matters

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

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Marks Richardson PC, Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited 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 and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See “Tax Exemption” below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District.

In addition to serving as Bond Counsel, Marks Richardson PC, also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Underwriter’s Counsel.

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

Legal Review

In its capacity as Bond Counsel, Marks Richardson PC, has reviewed the information appearing in this Official Statement under the captioned sections “PLAN OF FINANCING – Escrow Agreement,” and “ – Defeasance of Refunded Bonds” (but only insofar as such section relates to the legal opinion of Bond Counsel), “THE BONDS,” “THE DISTRICT – General” and “MANAGEMENT- Bond Counsel and General Counsel,” “TAX PROCEDURES,” “LEGAL MATTERS – Legal Opinions” (but only insofar as such section relates to the opinion of Bond Counsel) solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor have such firms 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 such firms’ limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion.

Bond Counsel's opinion will state that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the “Code”).

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. The law upon which Bond Counsel has based its opinion is subject to change by the Congress, administrative interpretation by the Department of the Treasury and to subsequent judicial interpretation. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

The Code imposes a number of requirements that must be satisfied in order 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 bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the District file an information report with the Internal Revenue Service. The District has covenanted in the Bond Orders that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Orders 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 with respect to matters solely within the knowledge of the District, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Orders, or if the foregoing representations 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.

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 and individuals otherwise qualifying for the earned income credit. These categories of prospective purchasers should consult their tax advisors as to the applicability of these consequences.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

Qualified Tax-Exempt Obligations

Section 265 of the Internal Revenue Code of 1986, as amended (the “Code”), provides, in general, that interest expense incurred to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of the Bonds. For certain owners that are “financial institutions” within the meaning of such section, complete disallowance of such expense would apply to taxable years beginning after December 31, 1986, with respect to tax-exempt obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense incurred by financial institutions to carry tax-exempt obligations (other than specified private activity bonds) which are designated by an issuer as “qualified tax-exempt obligations.” An issuer may only designate an issue as an issue of “qualified tax-exempt obligations” where less than \$10 million of tax-exempt obligations are issued by the issuer during the calendar year in which the issue so designated is issued.

The District has designated the Bonds as “qualified tax-exempt obligations” as it reasonably anticipates that it will not issue more than \$10,000,000 in tax-exempt obligations in 2020. Furthermore, the District has represented that it has or will take such action as is necessary for the Bonds to constitute “qualified tax-exempt obligations.” Notwithstanding the designation of the Bonds as “qualified tax-exempt obligations,” financial institutions acquiring the Bonds will be subject to a 20% disallowance of interest expense allocable to the Bonds.

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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

Under Existing Law, 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. See “Tax Exemption” herein for a discussion of certain collateral federal tax consequences.

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and 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, 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 ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

The initial public offering price to be paid for certain maturities of the Bonds is greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the funds deposited with the Escrow Agent as per the Escrow Agreement for the payment of the Refunded Bonds; (b) the mathematical computations of yield; and (c) compliance with City of Houston Ordinance No. 97-416.

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

NO MATERIAL ADVERSE CHANGE

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

NO-LITIGATION CERTIFICATE

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources: "THE DISTRICT" and "THE SYSTEM"—Van De Wiele and Vogler, Inc. "THE BONDS" and "LEGAL MATTERS – Legal Opinions" (insofar as such section relates to the legal opinion of Bond Counsel)—Marks Richardson PC, as applicable; "FINANCIAL STATEMENT" and "TAX DATA"— Harris County Appraisal District, Bob Leared Interests and the Municipal Advisory Council.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Underwriter

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Consultants

In approving this Official Statement, the District has relied upon the following consultants. Each consultant has agreed to the use of information provided by such firms.

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

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

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

Auditor: The financial statements of the District, as of July 31, 2019, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's July 31, 2019 audited financial statements.

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "WATER AND SEWER OPERATIONS" has been provided by District Data Services, Inc. and is included herein in reliance upon the authority of such firm as experts in 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 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 and reliance upon the experts listed above, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "FINANCIAL STATEMENT (excluding Overlapping Debt)," "TAX DATA," "THE SYSTEM," and in Appendix A (Financial Statements of the District and Certain Supplemental Schedules). The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2020. Any financial statements concerning the District so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation and audited if the audit report is completed within the period during which it must be provided. If the audit report of the District is not completed within such period, then the District shall provide unaudited financial statements for the applicable entity and fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

Specified Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person

within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (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 "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing 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 or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance With Prior Undertakings

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 401 as of the date shown on the cover page.

/s/ Blair Fesler
President, Board of Directors

ATTEST:

/s/ Sandee Wright
Secretary, Board of Directors

APPENDIX A

**Independent Auditor's Report and Financial Statements of the District
for the year ended July 31, 2019**

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2019

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	8-11
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	12
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	13-14
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	15
NOTES TO THE FINANCIAL STATEMENTS	16-28
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND	30
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	32-34
GENERAL FUND EXPENDITURES	35
SCHEDULE OF INVESTMENTS	36
TAXES LEVIED AND RECEIVABLE	37-38
LONG-TERM DEBT SERVICE REQUIREMENTS	39-47
CHANGE IN LONG-TERM BOND DEBT	48-49
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	50-53
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	54-55

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal Utility District No. 401
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 401 (the "District"), as of and for the year ended July 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
Harris County Municipal
Utility District No. 401

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 July 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

October 21, 2019

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

Management's discussion and analysis of Harris County Municipal Utility District No. 401's (the "District") financial performance provides an overview of the District's financial activities for the year ended July 31, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets and deferred outflows of resources by \$7,957,962 as of July 31, 2019.

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

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2019</u>	<u>2018</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 8,077,589	\$ 9,180,593	\$ (1,103,004)
Capital Assets (Net of Accumulated Depreciation)	<u>21,018,304</u>	<u>21,844,277</u>	<u>(825,973)</u>
Total Assets	<u>\$ 29,095,893</u>	<u>\$ 31,024,870</u>	<u>\$ (1,928,977)</u>
Deferred Outflows of Resources	<u>\$ 437,122</u>	<u>\$ 472,280</u>	<u>\$ (35,158)</u>
Due to Developer	\$ 2,407,581	\$ 4,355,791	\$ 1,948,210
Bonds Payable	34,295,594	35,138,344	842,750
Other Liabilities	<u>787,802</u>	<u>941,256</u>	<u>153,454</u>
Total Liabilities	<u>\$ 37,490,977</u>	<u>\$ 40,435,391</u>	<u>\$ 2,944,414</u>
Net Position:			
Net Investment in Capital Assets	\$ (14,187,900)	\$ (14,280,355)	\$ 92,455
Restricted	3,296,817	2,958,625	338,192
Unrestricted	<u>2,933,121</u>	<u>2,383,489</u>	<u>549,632</u>
Total Net Position	<u>\$ (7,957,962)</u>	<u>\$ (8,938,241)</u>	<u>\$ 980,279</u>

The following table provides a summary of the District's operations for the years ending July 31, 2019, and July 31, 2018. The District's net position increased by \$980,279, accounting for a 11.0% increase in net position. Comparative data is presented below.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2019</u>	<u>2018</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 3,260,053	\$ 3,078,876	\$ 181,177
Charges for Services	1,437,402	1,499,207	(61,805)
Other Revenues	<u>188,147</u>	<u>112,447</u>	<u>75,700</u>
Total Revenues	<u>\$ 4,885,602</u>	<u>\$ 4,690,530</u>	<u>\$ 195,072</u>
Expenses for Services	<u>3,905,323</u>	<u>5,292,759</u>	<u>1,387,436</u>
Change in Net Position	\$ 980,279	\$ (602,229)	\$ 1,582,508
Net Position, Beginning of Year	<u>(8,938,241)</u>	<u>(8,336,012)</u>	<u>(602,229)</u>
Net Position, End of Year	<u>\$ (7,957,962)</u>	<u>\$ (8,938,241)</u>	<u>\$ 980,279</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of the fiscal year ended July 31, 2019, were \$7,745,237, a decrease of \$967,697 from the prior year.

The General Fund fund balance increased by \$549,996, primarily due to service revenues exceeding operating expenditures and capital costs.

The Debt Service Fund fund balance increased by \$319,681, primarily due to the structure of the District's outstanding debt service.

The Capital Projects Fund fund balance decreased by \$1,837,374, primarily due to the use of bond proceeds received in a prior year to fund current year capital costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the current fiscal year to increase security expense and to decrease property tax revenues. Actual revenues were \$32,951 more than budgeted. Actual expenditures were \$130,499 less than budgeted.

CAPITAL ASSETS

Capital assets as of July 31, 2019, total \$21,018,304 (net of accumulated depreciation). These capital assets include land, as well as the water, wastewater and drainage systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,028,105	\$ 1,028,105	\$
Construction in Progress	104,001	93,875	10,126
Capital Assets, Net of Accumulated Depreciation:			
Water System	4,048,027	4,255,817	(207,790)
Wastewater System	8,094,168	8,494,978	(400,810)
Drainage System	7,608,388	7,832,774	(224,386)
Recreation/Trails	135,615	138,728	(3,113)
Total Net Capital Assets	\$ 21,018,304	\$ 21,844,277	\$ (825,973)

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the District had total bond debt of \$34,670,000.

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

Bond Debt Payable, August 1, 2018	\$ 35,535,000
Less: Bond Principal Paid	<u>865,000</u>
Bond Debt Payable, July 31, 2019	<u>\$ 34,670,000</u>

The District’s Series 2009 and Series 2011 bonds do not carry an underlying rating. The District’s Series 2013 and Series 2014 bonds have an underlying rating of “BBB-” from Standard & Poor’s (S&P). The District’s Series 2015, Series 2016 Refunding, Series 2016A, and Series 2017 Bonds have an underlying rating of “Baa1” from Moody’s. The Series 2009 and Series 2011 Bonds are non-rated. The Series 2013, Series 2014, Series 2015, Series 2016 Refunding Bonds, and Series 2017 carry an insured rating of “AA” from S&P by virtue of bond insurance issued by Assured Guaranty Municipal. The Series 2016A Bonds insured rating was withdrawn. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The above ratings are as of July 31, 2019, and reflect all rating changes through the fiscal year end.

CONTACTING THE DISTRICT’S MANAGEMENT

This financial report is designed to provide a general overview of District’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 401, c/o Marks Richards PC, 3700 Buffalo Speedway, Suite 830, Houston, Texas 77098.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JULY 31, 2019

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 240,295	\$ 273,622
Investments	2,777,209	3,529,702
Receivables:		
Property Taxes	2,326	5,971
Penalty and Interest on Delinquent Taxes		
Service Accounts	139,450	
Due from Other Funds	21,507	
Prepaid Costs	23,056	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 3,203,843	\$ 3,809,295
DEFERRED OUTFLOW OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,203,843	\$ 3,809,295

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 2,534	\$ 516,451	\$	\$ 516,451
1,056,254	7,363,165		7,363,165
	8,297		8,297
		2,336	2,336
	139,450		139,450
	21,507	(21,507)	
	23,056	24,834	47,890
		1,028,105	1,028,105
		104,001	104,001
		19,886,198	19,886,198
\$ 1,058,788	\$ 8,071,926	\$ 21,023,967	\$ 29,095,893
\$ -0-	\$ -0-	\$ 437,122	\$ 437,122
\$ 1,058,788	\$ 8,071,926	\$ 21,461,089	\$ 29,533,015

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JULY 31, 2019

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 187,689	\$
Accrued Interest Payable		
Due to Developers		
Due to Other Funds		21,507
Due to Taxpayers		2,390
Security Deposits	106,276	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 293,965	\$ 23,897
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 2,326	\$ 5,971
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 23,056	\$
Restricted for Authorized Construction		
Restricted for Debt Service		3,779,427
Unassigned	2,884,496	
TOTAL FUND BALANCES	\$ 2,907,552	\$ 3,779,427
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,203,843	\$ 3,809,295
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 530	\$ 188,219	\$	\$ 188,219
		490,917	490,917
		2,407,581	2,407,581
	21,507	(21,507)	
	2,390		2,390
	106,276		106,276
		1,200,000	1,200,000
		33,095,594	33,095,594
<u>\$ 530</u>	<u>\$ 318,392</u>	<u>\$ 37,172,585</u>	<u>\$ 37,490,977</u>
<u>\$ -0-</u>	<u>\$ 8,297</u>	<u>\$ (8,297)</u>	<u>\$ -0-</u>
\$ 1,058,258	\$ 23,056	\$ (23,056)	\$
	1,058,258	(1,058,258)	
	3,779,427	(3,779,427)	
	2,884,496	(2,884,496)	
<u>\$ 1,058,258</u>	<u>\$ 7,745,237</u>	<u>\$ (7,745,237)</u>	<u>\$ - 0 -</u>
<u>\$ 1,058,788</u>	<u>\$ 8,071,926</u>		
		\$ (14,187,900)	\$ (14,187,900)
		3,296,817	3,296,817
		2,933,121	2,933,121
		<u>\$ (7,957,962)</u>	<u>\$ (7,957,962)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JULY 31, 2019

Total Fund Balances - Governmental Funds		\$ 7,745,237
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Bond insurance premiums paid at closing are amortized over the term of the bond.		24,834
Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the new debt or the old debt, whichever is shorter.		437,122
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		21,018,304
Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.		10,633
Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:		
Due to Developers	\$ (2,407,581)	
Accrued Interest Payable	(490,917)	
Bonds Payable	<u>(34,295,594)</u>	<u>(37,194,092)</u>
Total Net Position - Governmental Activities		<u>\$ (7,957,962)</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JULY 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 902,107	\$ 2,351,969
Water Service	388,160	
Wastewater Service	464,751	
Regional Water Authority Fees	523,739	
Penalty and Interest	18,129	5,247
Tap Connection and Inspection Fees	36,242	
Investment Revenues	59,595	63,421
Miscellaneous Revenues	24,228	11,973
	<u>2,416,951</u>	<u>2,432,610</u>
TOTAL REVENUES	\$ 2,416,951	\$ 2,432,610
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 123,316	\$ 457
Contracted Services	520,751	48,549
Utilities	98,932	
Regional Water Authority Assessment	540,450	
Repairs and Maintenance	391,139	
Depreciation		
Other	129,380	5,072
Capital Outlay	62,987	
Conveyance of Assets		
Debt Service:		
Bond Issuance Costs		
Bond Principal		865,000
Bond Interest		1,193,851
	<u>1,866,955</u>	<u>2,112,929</u>
TOTAL EXPENDITURES/EXPENSES	\$ 1,866,955	\$ 2,112,929
NET CHANGE IN FUND BALANCES	\$ 549,996	\$ 319,681
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - AUGUST 1, 2018	<u>2,357,556</u>	<u>3,459,746</u>
FUND BALANCES/NET POSITION - JULY 31, 2019	<u>\$ 2,907,552</u>	<u>\$ 3,779,427</u>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 3,254,076	\$ 5,977	\$ 3,260,053
	388,160		388,160
	464,751		464,751
	523,739		523,739
	23,376	1,134	24,510
	36,242		36,242
28,930	151,946		151,946
	36,201		36,201
<u>28,930</u>	<u>4,878,491</u>	<u>7,111</u>	<u>4,885,602</u>
\$	\$ 123,773	\$	\$ 123,773
	569,300		569,300
	98,932		98,932
	540,450		540,450
	391,139		391,139
		689,908	689,908
57,900	192,352		192,352
1,752,722	1,815,709	(1,815,709)	
		3,564	3,564
55,682	55,682		55,682
	865,000	(865,000)	
	1,193,851	46,372	1,240,223
<u>1,866,304</u>	<u>5,846,188</u>	<u>(1,940,865)</u>	<u>3,905,323</u>
\$ (1,837,374)	\$ (967,697)	\$ 967,697	\$
		980,279	980,279
2,895,632	8,712,934	(17,651,175)	(8,938,241)
<u>1,058,258</u>	<u>7,745,237</u>	<u>(15,703,199)</u>	<u>(7,957,962)</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2019**

Net Change in Fund Balances - Governmental Funds	\$ (967,697)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	5,977
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	1,134
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(689,908)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	1,812,145
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	865,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	<u>(46,372)</u>
Change in Net Position - Governmental Activities	<u>\$ 980,279</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 401 (the “District”) was created effective August 10, 2004 by an Order of the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its organizational meeting on August 30, 2004, and sold its first bonds on December 27, 2007.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

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

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

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

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

Basis of Accounting

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of July 31, 2019, the Debt Service Fund owed the General Fund \$21,507 for maintenance tax collections.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

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

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

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was amended during the current fiscal year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only.

Measurement Focus

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 3. LONG-TERM DEBT

	<u>Series 2009</u>	<u>Series 2011</u>		
Amount Outstanding – July 31, 2019	\$ 260,000	\$ 1,310,000		
Interest Rates	6.250% - 6.625%	4.10% - 5.00%		
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2021	September 1, 2019/2034		
Interest Payment Dates	September 1/ March 1	September 1/ March 1		
Callable Dates	September 1, 2019*	September 1, 2020*		
	<u>Series 2013</u>	<u>Series 2014</u>	<u>Series 2015</u>	
Amount Outstanding – July 31, 2019	\$ 2,395,000	\$ 4,515,000	\$ 7,485,000	
Interest Rates	4.00% - 6.00%	3.00% - 4.00%	2.00% - 4.00%	
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2035	September 1, 2019/2038	September 1, 2019/2040	
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1	
Callable Dates	September 1, 2021*	September 1, 2022*	September 1, 2023*	
	<u>Refunding Series 2016</u>	<u>Series 2016A</u>	<u>Series 2017</u>	
Amount Outstanding – July 31, 2019	\$ 4,905,000	\$ 5,600,000	\$ 8,200,000	
Interest Rates	2.000% - 3.375%	2.00% - 3.375%	3.00% - 3.50%	
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2031	September 1, 2019/2041	September 1, 2019/2042	
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1	
Callable Dates	September 1, 2023*	September 1, 2024*	September 1, 2024*	

* Or any date thereafter, callable at par plus accrued interest to the date fixed for redemption, in whole or in part, at the option of the District. Series 2011 term bonds maturing September 1, 2025, and 2034, are scheduled for mandatory redemption beginning September 1, 2024, and 2026, respectively. Series 2013 term bonds maturing September 1, 2024, 2027, 2031, 2033, and 2035 are scheduled for mandatory redemption beginning September 1, 2022, 2025, 2028, 2032, and 2034, respectively. Series 2014 term bonds maturing September 1, 2022, 2024, 2026, 2028, 2030, 2034, 2036, and 2038, are scheduled for mandatory redemption beginning September 1, 2021, 2023, 2025, 2027, 2029, 2031, 2035, and 2037, respectively. The Series 2015 term bonds maturing September 1, 2035, 2037, and 2040 are subject to mandatory redemption beginning September 1, 2034, 2036, and 2038, respectively. The Series 2016A term bonds maturing September 1, 2031, 2033, 2035, 2037, 2039, and 2041, are subject to mandatory redemption beginning September 1, 2030, 2032, 2034, 2036, 2038, and 2040, respectively.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended July 31, 2019:

	August 1, 2018	Additions	Retirements	July 31, 2019
Bonds Payable	\$ 35,535,000	\$	\$ 865,000	\$ 34,670,000
Unamortized Discounts	(505,369)		(26,722)	(478,647)
Unamortized Premiums	108,713		4,472	104,241
Bonds Payable, net	<u>\$ 35,138,344</u>	<u>\$ -0-</u>	<u>\$ 842,750</u>	<u>\$ 34,295,594</u>
		Amount Due Within One Year		\$ 1,200,000
		Amount Due After One Year		<u>33,095,594</u>
		Bonds Payable, net		<u>\$ 34,295,594</u>

As of July 31, 2019, the District has authorized but unissued utility bonds in the amount of \$17,390,000, refunding bonds in the amount of \$58,770,000 and recreational bonds in the amount of \$4,845,000.

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

Fiscal Year	Principal	Interest	Total
2020	\$ 1,200,000	\$ 1,159,928	\$ 2,359,928
2021	1,220,000	1,122,989	2,342,989
2022	1,260,000	1,084,464	2,344,464
2023	1,290,000	1,046,337	2,336,337
2024	1,305,000	1,010,078	2,315,078
2025-2029	6,980,000	4,462,367	11,442,367
2030-2034	8,030,000	3,249,640	11,279,640
2035-2039	8,435,000	1,673,950	10,108,950
2040-2043	4,950,000	291,813	5,241,813
	<u>\$ 34,670,000</u>	<u>\$ 15,101,566</u>	<u>\$ 49,771,566</u>

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

During the year ended July 31, 2019, the District levied an ad valorem debt service tax at the rate of \$0.73 per \$100 of assessed valuation, which resulted in a tax levy of \$2,358,146 on the adjusted taxable valuation of \$323,071,928 for the 2018 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for maintenance tax levy.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 3. LONG-TERM DEBT (Continued)

The District's tax calendar is as follows:

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

NOTE 4. SIGNIFICANT BOND RESOLUTIONS AND LEGAL REQUIREMENTS

The bond resolutions state that the District is required to provide to the state information depository continuing disclosure of annual financial information and operating data with respect to the District. This information is also required to be provided to each nationally recognized municipal securities information depository. The information, along with the audited annual financial statements, is of the general type included in the annual audit report, and must be filed within six months after the end of each fiscal year of the District.

In the bond resolutions, the District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the Bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five year anniversary of each use.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to or greater than the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$516,451 and the bank balance was \$534,182. The District was not exposed to custodial credit risk at year-end.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

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

	Cash
GENERAL FUND	\$ 240,295
DEBT SERVICE FUND	273,622
CAPITAL PROJECTS FUND	2,534
TOTAL DEPOSITS	\$ 516,451

Investments

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

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

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all its portfolio assets at amortized costs. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitation or restrictions on withdrawals from TexPool.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District also invests in TexasTERM, an external investment pool that is not SEC-registered. An Advisory Board has oversight of the pool. TexasTERM measures all its portfolio assets at amortized cost. As a result, the District also measures its investment in TexasTERM at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexasTERM.

As of July 31, 2019, the District had the following investments:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexSTAR	\$ 2,261,680	\$ 2,261,680
TexasTERM	515,529	515,529
<u>DEBT SERVICE FUND</u>		
TexSTAR	3,529,702	3,529,702
<u>CAPITAL PROJECTS FUND</u>		
TexSTAR	1,056,254	1,056,254
TOTAL INVESTMENTS	\$ 7,363,165	\$ 7,363,165

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At July 31, 2019, the District's investments in TexPool and TexasTERM were rated AAAM by Standard and Poor's.

Interest rate risk is the risk the changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and TexasTERM to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District.

Restrictions

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended July 31, 2019:

	August 1, 2018	Increases	Decreases	July 31, 2019
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 1,028,105	\$	\$	\$ 1,028,105
Construction in Progress	93,875	17,989	7,863	104,001
Total Capital Assets Not Being Depreciated	<u>\$ 1,121,980</u>	<u>\$ 17,989</u>	<u>\$ 7,863</u>	<u>\$ 1,132,106</u>
Capital Assets Subject to Depreciation				
Water System	\$ 6,171,063	\$ 986	\$	\$ 6,172,049
Wastewater System	9,918,481	(147,177)	\$	9,771,304
Drainage System	9,883,635			9,883,635
Recreation/Trails	140,101			140,101
Total Capital Assets Subject to Depreciation	<u>\$ 26,113,280</u>	<u>\$ (146,191)</u>	<u>\$ - 0 -</u>	<u>\$ 25,967,089</u>
Less Accumulated Depreciation				
Water System	\$ 1,915,246	\$ 208,776	\$	\$ 2,124,022
Wastewater System	1,423,503	253,633		1,677,136
Drainage System	2,050,861	224,386		2,275,247
Recreation/Trails	1,373	3,113		4,486
Total Accumulated Depreciation	<u>\$ 5,390,983</u>	<u>\$ 689,908</u>	<u>\$ - 0 -</u>	<u>\$ 6,080,891</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 20,722,297</u>	<u>\$ (836,099)</u>	<u>\$ - 0 -</u>	<u>\$ 19,886,198</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 21,844,277</u>	<u>\$ (818,110)</u>	<u>\$ 7,863</u>	<u>\$ 21,018,304</u>

NOTE 7. MAINTENANCE TAX

On November 2, 2004, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system. During the year ended July 31, 2019, the District levied an ad valorem maintenance tax rate of \$0.28 per \$100 of assessed valuation, which resulted in a tax levy of \$904,494 on the adjusted taxable valuation of \$323,071,928 for the 2018 tax year.

NOTE 8. RECREATIONAL FACILITY MAINTENANCE TAX

On November 2, 2004, the voters of the District approved the levy and collection of a recreational facilities maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District. This recreational facility maintenance tax is to be used by the General Fund to pay expenditures related to any recreational facilities. During the fiscal year ended July 31, 2019, the District did not levy a recreational facility maintenance tax.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 9. UNREIMBURSED COSTS

The District has executed developer financing agreements with Developers within the District. The agreements call for the Developers to fund costs associated with water, sewer, and drainage facilities until such time as the District can sell bonds. As reflected in the Statement of Net Position, \$2,405,990 has been recorded as a liability for facilities financed by Developers which the District now operates and maintains. Reimbursement to the Developers will come from future bond sales.

The District further agreed to pay interest to the Developers on funds advanced for construction costs, creation costs and operating advances. The interest would be calculated at a rate equal to the lesser of (a) the net effective interest rate of the bonds or (b) the Developer's actual interest rate on loans obtained for the purpose of making payment of construction costs, creation costs and operating advances. To date, the Developers have advanced a total of \$502,545. During a prior fiscal year, the District reimbursed the Developers \$240,000 from the Series 2007 bond sale. In a prior fiscal year, the District reimbursed \$259,913 from the Series 2011 bond sale. During the prior fiscal year, the District reimbursed \$1,041 from the Series 2015 Bond Sale leaving a remaining balance of \$1,591 still owed to the Developers. This amount has been recorded in the Statement of Net Position.

NOTE 10. EMERGENCY WATER SUPPLY AGREEMENT

On August 17, 2005, the District entered into an Emergency Water Supply Contract with Dowdell Public Utility District ("Dowdell"). Each district was responsible for the design, acquisition, construction and installation of the interconnection facilities on their respective side of the point of interconnect. The cost of the meter was shared equally between the districts. The District is responsible for the maintenance and repair of the interconnection facilities on its side of the meter and Dowdell is responsible for the maintenance and repair of the interconnection facilities on its side of the meter, as well as, the meter itself. Each district is authorized to take water in an emergency, however, outside an emergency, water can only be taken upon written consent from the supplying district. The agreement provides for calculating the amount of water taken and states that the price is \$0.50 per 1,000 gallons of water, plus any amount of fee imposed by a regional water authority, other governmental entity or other contractual arrangement. The term of the agreement is 40 years.

NOTE 11. RISK MANAGEMENT

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 12. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the North Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the “Act”), as passed by the 75th Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority is overseeing that its participants comply with the Harris-Galveston Subsidence District pumpage requirements. The District is required to convert its water supply to surface water over a period of time. A five-member board of directors governs the Authority. The directors serve staggered four-year terms.

The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. The current fee being charged is \$3.85 per 1,000 gallons of water pumped from each well. The District paid \$540,450 for fees assessed during the current fiscal year.

NOTE 13. WHOLESALE WATER SUPPLY AGREEMENT

On February 20, 2008, the District entered a wholesale water supply agreement with Albury Manor Utility Company, Inc. (“Albury Manor”). This agreement was amended on September 15, 2010. The District provided water at a rate of \$4.72 per 1,000 gallons of water delivered until March 19, 2018. On that date, the District approved a rate increase to \$5.24 per 1,000 gallons of water delivered. Effective April 1, 2019, the District approved a rate increase to \$5.82 per 1,000 gallons of water delivered. The term of this agreement is 40 years from the execution date.

NOTE 14. USE OF SURPLUS

On August 28, 2018, the Commission approved the use of surplus Capital Project Fund monies in the amount of \$2,008,064 to reimburse Developers for the costs of engineering and construction associated with water, wastewater, and drainage for Inverness Estates Sections 2, 5, 7, 8, and 9, detention and storm water quality, dry detention basins, water plant no. 1, phase 1, wastewater treatment plant site work, Albury Trails Estates detention pond Sections 3 and 4, phase 1, and phase II, clearing and grubbing to serve Albury Trails Estates detention pond, Sections 3 and 4, Albury Trails Estates Detention Pond, Sections 3 and 4 land costs, and Albury Trails Estates Section 3 stormwater pollution prevention.

NOTE 15. PENDING BOND APPLICATION

On July 12, 2019, the District submitted a bond application to the Commission in the amount of \$8,490,000 for its Series 2019 bonds. As of the report date, the application is still pending approval.

THIS PAGE INTENTIONALLY LEFT BLANK

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401

REQUIRED SUPPLEMENTARY INFORMATION

JULY 31, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JULY 31, 2019

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 895,000	\$ 885,000	\$ 902,107	\$ 17,107
Water Service	415,000	415,000	388,160	(26,840)
Wastewater Service	453,000	453,000	464,751	11,751
Regional Water Authority Fee	545,000	545,000	523,739	(21,261)
Penalty and Interest	21,000	21,000	18,129	(2,871)
Tap Connection and Inspection Fees	40,000	40,000	36,242	(3,758)
Investment Revenues	24,000	24,000	59,595	35,595
Miscellaneous Revenues	1,000	1,000	24,228	23,228
TOTAL REVENUES	<u>\$ 2,394,000</u>	<u>\$ 2,384,000</u>	<u>\$ 2,416,951</u>	<u>\$ 32,951</u>
EXPENDITURES				
Services Operations:				
Professional Fees	\$ 158,200	\$ 158,200	\$ 123,316	\$ 34,884
Contracted Services	479,304	499,304	520,751	(21,447)
Utilities	112,000	112,000	98,932	13,068
Regional Water Authority Assessment	545,000	545,000	540,450	4,550
Repairs and Maintenance	490,250	490,250	391,139	99,111
Other	144,200	144,200	129,380	14,820
Capital Outlay	48,500	48,500	62,987	(14,487)
TOTAL EXPENDITURES	<u>\$ 1,977,454</u>	<u>\$ 1,997,454</u>	<u>\$ 1,866,955</u>	<u>\$ 130,499</u>
NET CHANGE IN FUND BALANCE	\$ 416,546	\$ 386,546	\$ 549,996	\$ 163,450
FUND BALANCE - AUGUST 1, 2018	<u>2,357,556</u>	<u>2,357,556</u>	<u>2,357,556</u>	<u> </u>
FUND BALANCE - JULY 31, 2019	<u>\$ 2,774,102</u>	<u>\$ 2,744,102</u>	<u>\$ 2,907,552</u>	<u>\$ 163,450</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401

**SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

JULY 31, 2019

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019**

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

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

* The District provides wholesale water service to Albury Manor Utility Company, Inc. (Albury Manor) in accordance with the wholesale water supply agreement between the District and Albury Manor effective February 20, 2008.

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective on April 1, 2018.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$21.00	5,000	N	\$0.95 \$1.20 \$1.45*** \$1.70***	5,001 to 10,000 10,001 to 15,000 15,001 to 20,000 20,001 and up
WASTEWATER:	\$33.65**		Y		
SURCHARGE:					
Regional Water Authority Fees	\$4.12 per 1,000 gallons of water used				

District employs winter averaging for wastewater usage?

<u> </u>	<u> X </u>
Yes	No

Total monthly charges per 10,000 gallons usage: Water: \$25.75 Wastewater: \$33.65 Surcharge: \$41.20

** Includes solid waste disposal.

*** During May 1 through August 31 of each year, the District bills \$1.75 per 1,000 gallons for the 15,001 to 20,000 tier and \$2.05 per 1,000 gallons for 20,001 and up tier.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	1,170	1,162	x 1.0	1,162
1"	13	13	x 2.5	33
1½"	4	4	x 5.0	20
2"	8	8	x 8.0	64
3"			x 15.0	
4"			x 25.0	
6"	1	1	x 50.0	50
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>1,196</u>	<u>1,188</u>		<u>1,329</u>
Total Wastewater Connections	<u>1,187</u>	<u>1,179</u>	x 1.0	<u>1,179</u>

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

Gallons pumped into system:	149,675,000	Water Accountability Ratio: 94% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	137,865,000	
Loss, leaks or flushing:	2,870,000	

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019**

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

Does the District have Debt Service standby fees? Yes ___ No X

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely _____ Partly _____ Not at all X

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

Entirely X Partly _____ Not at all _____

ETJ in which the District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2019

PROFESSIONAL FEES:	
Auditing	\$ 14,750
Engineering	48,319
Legal	<u>60,247</u>
TOTAL PROFESSIONAL FEES	<u>\$ 123,316</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 18,883
Operations and Billing	<u>124,419</u>
TOTAL CONTRACTED SERVICES	<u>\$ 143,302</u>
UTILITIES	<u>\$ 98,932</u>
REPAIRS AND MAINTENANCE	<u>\$ 391,139</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 23,850
Insurance	18,173
Office Supplies and Postage	216
Payroll Taxes	2,128
Election Costs	553
Travel and Meetings	3,488
Other	<u>21,135</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 69,543</u>
CAPITAL OUTLAY	<u>\$ 62,987</u>
TAP CONNECTIONS	<u>\$ 18,495</u>
SOLID WASTE DISPOSAL	<u>\$ 201,466</u>
SECURITY	<u>\$ 175,983</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 3,378
Permit Fees	3,939
Regional Water Authority Assessment	540,450
Regulatory Assessment	4,352
Sludge Hauling	<u>29,673</u>
TOTAL OTHER EXPENDITURES	<u>\$ 581,792</u>
TOTAL EXPENDITURES	<u>\$ 1,866,955</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
SCHEDULE OF INVESTMENTS
FOR THE YEAR ENDED JULY 31, 2019

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexSTAR	XXXX1110	Varies	Daily	\$ 2,261,680	\$
TexasTERM	XXXX0000	Varies	Daily	515,529	
TOTAL GENERAL FUND				<u>\$ 2,777,209</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexSTAR	XXXX0230	Varies	Daily	<u>\$ 3,529,702</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexSTAR	XXXX0900	Varies	Daily	\$ 10,661	\$
TexSTAR	XXXX1300	Varies	Daily	114,215	
TexSTAR	XXXX1400	Varies	Daily	925,164	
TexSTAR	XXXX1500	Varies	Daily	6,214	
TOTAL CAPITAL PROJECTS FUND				<u>\$ 1,056,254</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u>\$ 7,363,165</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2019**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
AUGUST 1, 2018	\$	693		\$ 1,627
Adjustments to Beginning				
Balance		<u>(754)</u>	\$ (61)	<u>(1,833)</u> \$ (206)
Original 2018 Tax Levy	\$	887,041		\$ 2,312,644
Adjustment to 2018 Tax Levy		<u>17,453</u>	<u>904,494</u>	<u>45,502</u> 2,358,146
TOTAL TO BE				
ACCOUNTED FOR			\$ 904,433	\$ 2,357,940
TAX COLLECTIONS:				
Prior Years	\$	(263)		\$ (640)
Current Year		<u>902,370</u>	<u>902,107</u>	<u>2,352,609</u> 2,351,969
TAXES RECEIVABLE -				
JULY 31, 2019			<u>\$ 2,326</u>	<u>\$ 5,971</u>
TAXES RECEIVABLE BY				
YEAR:				
2018			\$ 2,124	\$ 5,537
2017			79	192
2016			4	10
2014			66	137
2012			<u>53</u>	<u>95</u>
TOTAL			<u>\$ 2,326</u>	<u>\$ 5,971</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2019**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 60,576,064	\$ 56,413,647	\$ 54,901,115	\$ 53,575,491
Improvements	270,102,395	248,378,135	224,750,462	182,383,977
Personal Property	2,321,806	1,580,968	2,273,067	2,598,459
Exemptions	<u>(9,928,337)</u>	<u>(7,179,109)</u>	<u>(7,473,775)</u>	<u>(10,839,020)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 323,071,928</u>	<u>\$ 299,193,641</u>	<u>\$ 274,450,869</u>	<u>\$ 227,718,907</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.73	\$ 0.73	\$ 0.75	\$ 0.75
Maintenance	<u>0.28</u>	<u>0.30</u>	<u>0.30</u>	<u>0.38</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.01</u>	<u>\$ 1.03</u>	<u>\$ 1.05</u>	<u>\$ 1.13</u>
ADJUSTED TAX LEVY*	<u>\$ 3,262,640</u>	<u>\$ 3,081,540</u>	<u>\$ 2,884,294</u>	<u>\$ 2,573,224</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.77 %</u>	<u>99.99 %</u>	<u>99.99 %</u>	<u>100.00 %</u>

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

Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on November 2, 2004.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

S E R I E S - 2 0 0 9			
Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 80,000	\$ 14,213	\$ 94,213
2021	85,000	9,003	94,003
2022	95,000	3,147	98,147
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
	\$ 260,000	\$ 26,363	\$ 286,363

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

S E R I E S - 2 0 1 1

Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 45,000	\$ 63,392	\$ 108,392
2021	45,000	61,514	106,514
2022	50,000	59,433	109,433
2023	55,000	57,001	112,001
2024	55,000	54,347	109,347
2025	60,000	51,500	111,500
2026	65,000	48,375	113,375
2027	70,000	45,300	115,300
2028	70,000	41,200	111,200
2029	75,000	37,875	112,875
2030	80,000	34,000	114,000
2031	85,000	29,875	114,875
2032	95,000	25,375	120,375
2033	150,000	19,250	169,250
2034	150,000	11,750	161,750
2035	160,000	4,000	164,000
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
	<u>\$ 1,310,000</u>	<u>\$ 644,187</u>	<u>\$ 1,954,187</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

SERIES - 2013

Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 55,000	\$ 106,869	\$ 161,869
2021	55,000	103,568	158,568
2022	60,000	100,118	160,118
2023	65,000	97,019	162,019
2024	65,000	94,419	159,419
2025	70,000	91,718	161,718
2026	75,000	88,818	163,818
2027	80,000	85,719	165,719
2028	85,000	82,419	167,419
2029	90,000	78,750	168,750
2030	90,000	74,812	164,812
2031	100,000	70,656	170,656
2032	105,000	66,172	171,172
2033	350,000	56,000	406,000
2034	350,000	40,250	390,250
2035	350,000	24,281	374,281
2036	350,000	8,094	358,094
2037			
2038			
2039			
2040			
2041			
2042			
2043			
	<u>\$ 2,395,000</u>	<u>\$ 1,269,682</u>	<u>\$ 3,664,682</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

S E R I E S - 2 0 1 4

Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 100,000	\$ 168,600	\$ 268,600
2021	100,000	165,600	265,600
2022	100,000	162,600	262,600
2023	100,000	159,600	259,600
2024	100,000	156,600	256,600
2025	100,000	153,600	253,600
2026	100,000	150,600	250,600
2027	100,000	147,600	247,600
2028	100,000	144,475	244,475
2029	100,000	141,225	241,225
2030	100,000	137,850	237,850
2031	100,000	134,350	234,350
2032	100,000	130,600	230,600
2033	345,000	121,700	466,700
2034	385,000	107,100	492,100
2035	420,000	91,000	511,000
2036	500,000	72,600	572,600
2037	495,000	52,700	547,700
2038	520,000	32,400	552,400
2039	550,000	11,000	561,000
2040			
2041			
2042			
2043			
	<u>\$ 4,515,000</u>	<u>\$ 2,441,800</u>	<u>\$ 6,956,800</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

SERIES - 2015

Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 170,000	\$ 255,954	\$ 425,954
2021	180,000	252,454	432,454
2022	190,000	248,516	438,516
2023	200,000	243,879	443,879
2024	210,000	238,491	448,491
2025	220,000	232,579	452,579
2026	230,000	226,391	456,391
2027	245,000	219,860	464,860
2028	255,000	212,666	467,666
2029	270,000	204,623	474,623
2030	285,000	195,773	480,773
2031	300,000	186,266	486,266
2032	315,000	176,036	491,036
2033	330,000	164,906	494,906
2034	345,000	152,878	497,878
2035	365,000	139,781	504,781
2036	275,000	127,781	402,781
2037	550,000	111,969	661,969
2038	550,000	90,656	640,656
2039	550,000	69,000	619,000
2040	700,000	44,000	744,000
2041	750,000	15,000	765,000
2042			
2043			
	<u>\$ 7,485,000</u>	<u>\$ 3,809,459</u>	<u>\$ 11,294,459</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

SERIES - 2016 REFUNDING

Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 250,000	\$ 131,400	\$ 381,400
2021	255,000	126,350	381,350
2022	265,000	121,150	386,150
2023	370,000	114,338	484,338
2024	375,000	105,721	480,721
2025	380,000	96,519	476,519
2026	395,000	86,337	481,337
2027	400,000	75,406	475,406
2028	415,000	63,681	478,681
2029	430,000	51,006	481,006
2030	445,000	37,603	482,603
2031	455,000	23,256	478,256
2032	470,000	7,931	477,931
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
	<u>\$ 4,905,000</u>	<u>\$ 1,040,698</u>	<u>\$ 5,945,698</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

S E R I E S - 2 0 1 6 A

Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 200,000	\$ 163,125	\$ 363,125
2021	200,000	157,125	357,125
2022	200,000	151,125	351,125
2023	200,000	145,125	345,125
2024	200,000	140,125	340,125
2025	200,000	136,125	336,125
2026	200,000	132,125	332,125
2027	200,000	127,875	327,875
2028	200,000	123,125	323,125
2029	200,000	118,000	318,000
2030	200,000	112,625	312,625
2031	200,000	106,875	306,875
2032	200,000	100,875	300,875
2033	200,000	94,875	294,875
2034	200,000	88,875	288,875
2035	200,000	82,625	282,625
2036	200,000	76,125	276,125
2037	200,000	69,625	269,625
2038	200,000	63,125	263,125
2039	200,000	56,625	256,625
2040	500,000	45,250	545,250
2041	500,000	28,688	528,688
2042	600,000	10,125	610,125
2043			
	<u>\$ 5,600,000</u>	<u>\$ 2,330,188</u>	<u>\$ 7,930,188</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

S E R I E S - 2 0 1 7

Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 300,000	\$ 256,375	\$ 556,375
2021	300,000	247,375	547,375
2022	300,000	238,375	538,375
2023	300,000	229,375	529,375
2024	300,000	220,375	520,375
2025	300,000	211,375	511,375
2026	300,000	202,375	502,375
2027	300,000	193,375	493,375
2028	300,000	184,375	484,375
2029	300,000	175,375	475,375
2030	300,000	166,375	466,375
2031	300,000	157,375	457,375
2032	300,000	148,375	448,375
2033	300,000	139,188	439,188
2034	300,000	129,813	429,813
2035	300,000	120,438	420,438
2036	300,000	110,875	410,875
2037	400,000	99,500	499,500
2038	400,000	86,500	486,500
2039	400,000	73,250	473,250
2040	400,000	59,500	459,500
2041	400,000	45,500	445,500
2042	400,000	31,500	431,500
2043	700,000	12,250	712,250
	<u>\$ 8,200,000</u>	<u>\$ 3,539,189</u>	<u>\$ 11,739,189</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending July 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 1,200,000	\$ 1,159,928	\$ 2,359,928
2021	1,220,000	1,122,989	2,342,989
2022	1,260,000	1,084,464	2,344,464
2023	1,290,000	1,046,337	2,336,337
2024	1,305,000	1,010,078	2,315,078
2025	1,330,000	973,416	2,303,416
2026	1,365,000	935,021	2,300,021
2027	1,395,000	895,135	2,290,135
2028	1,425,000	851,941	2,276,941
2029	1,465,000	806,854	2,271,854
2030	1,500,000	759,038	2,259,038
2031	1,540,000	708,653	2,248,653
2032	1,585,000	655,364	2,240,364
2033	1,675,000	595,919	2,270,919
2034	1,730,000	530,666	2,260,666
2035	1,795,000	462,125	2,257,125
2036	1,625,000	395,475	2,020,475
2037	1,645,000	333,794	1,978,794
2038	1,670,000	272,681	1,942,681
2039	1,700,000	209,875	1,909,875
2040	1,600,000	148,750	1,748,750
2041	1,650,000	89,188	1,739,188
2042	1,000,000	41,625	1,041,625
2043	700,000	12,250	712,250
	<u>\$ 34,670,000</u>	<u>\$ 15,101,566</u>	<u>\$ 49,771,566</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JULY 31, 2019

Description	Original Bonds Issued	Bonds Outstanding August 1, 2018	
Harris County Municipal Utility District No. 401 Unlimited Tax Bonds - Series 2007	\$ 4,270,000	\$ 160,000	
Harris County Municipal Utility District No. 401 Unlimited Tax Bonds - Series 2009	2,140,000	335,000	
Harris County Municipal Utility District No. 401 Unlimited Tax Bonds - Series 2011	1,520,000	1,350,000	
Harris County Municipal Utility District No. 401 Unlimited Tax Bonds - Series 2013	2,540,000	2,445,000	
Harris County Municipal Utility District No. 401 Unlimited Tax Bonds - Series 2014	4,815,000	4,615,000	
Harris County Municipal Utility District No. 401 Unlimited Tax Bonds - Series 2015	7,800,000	7,645,000	
Harris County Municipal Utility District No. 401 Unlimited Tax Refunding Bonds - Series 2016	5,185,000	4,985,000	
Harris County Municipal Utility District No. 401 Unlimited Tax Bonds - Series 2016A	6,000,000	5,800,000	
Harris County Municipal Utility District No. 401 Unlimited Tax Bonds - Series 2017	<u>8,200,000</u>	<u>8,200,000</u>	
TOTAL	<u><u>\$ 42,470,000</u></u>	<u><u>\$ 35,535,000</u></u>	
Bond Authority:	<u>Tax Bonds*</u>	<u>Refunding Bonds</u>	<u>Recreational Bonds</u>
Amount Authorized by Voters	\$ 54,675,000	\$ 59,520,000	\$ 4,845,000
Amount Issued	<u>37,285,000</u>	<u>750,000</u>	<u> </u>
Remaining to be Issued	<u><u>\$ 17,390,000</u></u>	<u><u>\$ 58,770,000</u></u>	<u><u>\$ 4,845,000</u></u>

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding July 31, 2019</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 160,000	\$ 4,000	\$ -0-	Regions Bank Houston, TX
	75,000	18,963	260,000	Regions Bank Houston, TX
	40,000	65,315	1,310,000	Regions Bank Houston, TX
	50,000	110,019	2,395,000	Regions Bank Houston, TX
	100,000	171,600	4,515,000	Regions Bank Houston, TX
	160,000	259,254	7,485,000	Regions Bank Houston, TX
	80,000	134,700	4,905,000	Regions Bank Houston, TX
	200,000	169,125	5,600,000	Regions Bank Houston, TX
		260,875	8,200,000	Regions Bank Houston, TX
<u>\$ - 0 -</u>	<u>\$ 865,000</u>	<u>\$ 1,193,851</u>	<u>\$ 34,670,000</u>	

Debt Service Fund cash and investment balances as of July 31, 2019: \$ 3,803,324

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 2,073,815

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

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

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 902,107	\$ 902,007	\$ 820,528
Water Service	388,160	421,342	408,429
Wastewater Service	464,751	445,713	414,227
Regional Water Authority Fee	523,739	538,140	475,257
Penalty and Interest	18,129	18,662	17,207
Tap Connection and Inspection Fees	36,242	64,286	106,385
Investment Revenues	59,595	27,140	4,078
Miscellaneous Revenues	24,228	11,798	21,346
TOTAL REVENUES	\$ 2,416,951	\$ 2,429,088	\$ 2,267,457
EXPENDITURES			
Professional Fees	\$ 123,316	\$ 200,174	\$ 192,927
Contracted Services	520,751	467,122	482,671
Utilities	98,932	111,579	74,889
Regional Water Authority Assessment	540,450	577,190	496,635
Repairs and Maintenance	391,139	679,608	527,057
Other	129,380	167,523	174,186
Bond Issuance			
Capital Outlay	62,987	9,898	48,349
TOTAL EXPENDITURES	\$ 1,866,955	\$ 2,213,094	\$ 1,996,714
EXCESS (DEFICIENCY) OF REVENUES			
NET CHANGE IN FUND BALANCE	\$ 549,996	\$ 215,994	\$ 270,743
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ - 0 -	\$ 85,009	\$ 25,029
NET CHANGE IN FUND BALANCE	\$ 549,996	\$ 301,003	\$ 295,772
BEGINNING FUND BALANCE	2,357,556	2,056,553	1,760,781
ENDING FUND BALANCE	\$ 2,907,552	\$ 2,357,556	\$ 2,056,553

See accompanying independent auditor's report.

		Percentage of Total Revenues				
<u>2016</u>	<u>2015</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 864,512	\$ 618,077	37.2 %	37.2 %	36.1 %	41.9 %	38.1 %
360,439	278,991	16.1	17.3	18.0	17.4	17.2
379,149	320,916	19.2	18.3	18.3	18.3	19.8
329,008	208,424	21.7	22.2	21.0	15.9	12.8
15,671	10,065	0.8	0.8	0.8	0.8	0.6
88,605	163,500	1.5	2.6	4.7	4.3	10.1
2,487	1,680	2.5	1.1	0.2	0.1	0.1
26,667	21,638	1.0	0.5	0.9	1.3	1.3
<u>\$ 2,066,538</u>	<u>\$ 1,623,291</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 143,335	\$ 117,197	5.1 %	8.2 %	8.5 %	6.9 %	7.2 %
401,998	323,809	21.5	19.2	21.3	19.5	19.9
92,719	83,370	4.1	4.6	3.3	4.5	5.1
360,932	243,780	22.4	23.8	21.9	17.5	15.0
301,160	267,013	16.2	28.0	23.2	14.6	16.4
172,775	234,891	5.4	6.9	7.7	8.4	14.5
	42,700					2.6
26,670		2.6	0.4	2.1	1.3	
<u>\$ 1,499,589</u>	<u>\$ 1,312,760</u>	<u>77.3 %</u>	<u>91.1 %</u>	<u>88.0 %</u>	<u>72.7 %</u>	<u>80.7 %</u>
<u>\$ 566,949</u>	<u>\$ 310,531</u>	<u>22.7 %</u>	<u>8.9 %</u>	<u>12.0 %</u>	<u>27.3 %</u>	<u>19.3 %</u>
<u>\$ 42,700</u>	<u>\$ - 0 -</u>					
\$ 609,649	\$ 310,531					
1,151,132	840,601					
<u>\$ 1,760,781</u>	<u>\$ 1,151,132</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 2,351,969	\$ 2,194,787	\$ 2,050,583
Penalty and Interest	5,247	13,998	7,333
Interest on Investments	63,421	35,828	5,999
Miscellaneous Revenues	11,973	2,226	117
TOTAL REVENUES	\$ 2,432,610	\$ 2,246,839	\$ 2,064,032
EXPENDITURES			
Tax Collection Expenditures	\$ 46,945	\$ 50,671	\$ 42,262
Debt Service Principal	865,000	840,000	520,000
Debt Service Interest and Fees	1,200,984	1,042,105	891,704
Bond Issuance Costs			
TOTAL EXPENDITURES	\$ 2,112,929	\$ 1,932,776	\$ 1,453,966
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 319,681	\$ 314,063	\$ 610,066
OTHER FINANCING SOURCES (USES)			
Bond Discount	\$	\$	\$
Refunding Bonds Issued			
Payment to Refunded Escrow Agent			
Long-Term Debt Issued			
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 319,681	\$ 314,063	\$ 610,066
BEGINNING FUND BALANCE	3,459,746	3,145,683	2,535,617
ENDING FUND BALANCE	\$ 3,779,427	\$ 3,459,746	\$ 3,145,683
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,188	1,148	1,091
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,179	1,138	1,081

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 1,707,301	\$ 1,283,547	96.7 %	97.7 %	99.3 %	98.8 %	99.2 %
16,474	8,383	0.2	0.6	0.4	1.0	0.6
3,942	2,518	2.6	1.6	0.3	0.2	0.2
295	570	0.5	0.1			
<u>\$ 1,728,012</u>	<u>\$ 1,295,018</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 39,608	\$ 29,334	1.9 %	2.3 %	2.0 %	2.3 %	2.3 %
235,000	220,000	35.6	37.4	25.2	13.6	17.0
651,545	650,815	49.4	46.4	43.2	37.7	50.3
233,670					13.5	
<u>\$ 1,159,823</u>	<u>\$ 900,149</u>	<u>86.9 %</u>	<u>86.1 %</u>	<u>70.4 %</u>	<u>67.1 %</u>	<u>69.6 %</u>
\$ 568,189	\$ 394,869	13.1 %	13.9 %	29.6 %	32.9 %	30.4 %
\$ (75,889)	\$					
5,185,000						
(4,894,139)						
131,977						
<u>\$ 346,949</u>	<u>\$ - 0 -</u>					
\$ 915,138	\$ 394,869					
1,620,479	1,225,610					
<u>\$ 2,535,617</u>	<u>\$ 1,620,479</u>					
<u>989</u>	<u>914</u>					
<u>979</u>	<u>905</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2019**

District Mailing Address - Harris County Municipal Utility District No. 401
c/o Marks Richardson PC
3700 Buffalo Speedway, Suite 830
Houston, TX 77098

District Telephone Number - (713) 942-9922

Board Members:	Term of Office (Elected or Appointed)	Fees of Office for the year ended July 31, 2019	Expense Reimbursements for the year ended July 31, 2019	Title
Blair Fesler	05/16 05/20 (Elected)	\$ 4,500	\$ 41	President
Mark Atchison	05/18 05/22 (Elected)	\$ 5,250	\$ -0-	Vice President
Sandee Wright	05/16 05/20 (Elected)	\$ 4,200	\$ 1,705	Secretary
Raul Solis	05/16 05/20 (Elected)	\$ 6,000	\$ 2,260	Assistant Vice President/ Secretary
Jordan Thomas	05/18 05/22 (Elected)	\$ 3,900	\$ -0-	Assistant Vice President/ Secretary

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

Submission date of most recent District Registration Form: May 29, 2019.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on August 30, 2004. Fees of Office are the amounts actually paid to a Director during the District's fiscal year. One director was overpaid their fees due to an accounting error. The director will forego fees in the next fiscal year to repay the overpaid amount.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 401
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2019**

Consultants:	<u>Date Hired</u>	<u>Fees / Compensation for the year ended July 31, 2019</u>	<u>Title</u>
Marks Richardson PC	08/21/17	\$ 63,869	General Counsel
McCall Gibson Swedlund Barfoot PLLC	10/19/05	\$ 14,750 \$ 9,250	Auditor Bond Related
District Data Services, Inc.	11/12/04	\$ 18,883	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/15/06	\$ 457	Delinquent Tax Attorney
Jones & Carter, Inc.	08/30/04	\$ 126,948	Engineer
Masterson Advisors LLC	05/21/18	\$ -0-	Financial Advisor
Stephanie Viator	11/15/06	\$ -0-	Investment Officer
Municipal Operations & Consulting, Inc.	6/17/09	\$ 384,531	Operator
Bob Leared	02/16/05	\$ 18,970	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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