

OFFICIAL STATEMENT DATED JUNE 29, 2020

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINIONS OF BOND COUNSEL AS TO THE VALIDITY OF THE BONDS AND OF SPECIAL TAX COUNSEL TO THE EFFECT THAT INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS. SEE "LEGAL MATTERS" AND "TAX MATTERS" FOR A DISCUSSION OF THE OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL.

*The District has designated the Bonds as "qualified tax-exempt obligations" for purposes of the calculation of interest expense by financial institutions which may own the Bonds. See "TAX MATTERS -- Qualified Tax-Exempt Obligations for Financial Institutions."*

NEW ISSUE  
BOOK-ENTRY ONLY  
CUSIP Base No. 498575

RATINGS: (S&P-AGM) "AA" (stable outlook)  
(Moody's-AGM) "A2" (stable outlook)  
(See "BOND INSURANCE" herein)  
(Moody's-underlying) "A2"

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**

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

**\$3,080,000**

**WATERWORKS AND SEWER SYSTEM COMBINATION  
UNLIMITED TAX AND REVENUE REFUNDING BONDS, SERIES 2020**

**Bonds Dated: July 1, 2020**

**Due: August 1, as shown on inside cover**

The \$3,080,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2020 (the "Bonds") are obligations solely of Kleinwood Municipal Utility District (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any other political subdivision or agency. See "THE BONDS--Source of and Security for Payment."

Principal of and the redemption price for the Bonds are payable by UMB Bank N.A., Houston, Texas or any successor paying agent/registrant (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from July 1, 2020, and will be payable on February 1, 2021 and each August 1 and February 1 thereafter, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are issuable only in fully registered form in principal denominations of \$5,000 or integral multiples thereof. The Bonds will be initially registered solely in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), acting as securities depository for the Bonds, until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, principal of and interest on the Bonds shall be payable to Cede & Co., which will in turn, remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS--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 INSIDE COVER PAGE FOR MATURITY SCHEDULE

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from (a) the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District and (b) the Net Revenues (as defined herein) of the District's waterworks and sewer system. See "THE BONDS--Source of and Security for Payment." The Bonds are subject to special investment considerations described herein. See "RISK FACTORS." **Neither the State of Texas, Harris County, Texas, the City of Houston, nor any political subdivision other than the District shall be obligated to pay the principal of and interest on the Bonds.**

The Bonds will be delivered when, as, and if issued by the District and accepted by the initial purchaser of the Bonds (the "Underwriter"), subject, amongst other things, to the approval of the Initial Bonds by the Attorney General of the State of Texas and by the approval of certain legal matters by Coats Rose, P.C., Houston, Texas, Bond Counsel. Certain legal matters will be passed upon by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Underwriter's Counsel and Special Tax Counsel. Delivery of the Bonds is expected on August 5, 2020, in Houston, Texas.

**SAMCO Capital  
UMB BANK**

## MATURITY SCHEDULE

**Bonds Dated: July 1, 2020**

**Due: August 1, as shown below**

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield(a)</u>	<u>CUSIP (b)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield(a)</u>	<u>CUSIP (b)</u>
2021	\$255,000	4.000%	0.850%	498575KK4	2026	\$175,000	4.000%	1.250%	498575KQ1
2022	625,000	4.000%	0.900%	498575KL2	2027(c)	190,000	3.000%	1.310%	498575KR9
2023	625,000	4.000%	0.920%	498575KM0	2028(c)	195,000	2.000%	1.560%	498575KS7
2024	650,000	4.000%	0.970%	498575KN8	2029(c)	195,000	2.000%	1.630%	498575KT5
2025	170,000	4.000%	1.110%	498575KP3					

(a) Initial yield represents the initial reoffering yield to the public which has been established by the Underwriter for public offerings and which subsequently may be changed. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from July 1, 2020 is to be added to the price.

(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(c) Bonds maturing on or after August 1, 2027, are subject to redemption prior to maturity at the option of the District, as a whole or, from time to time, in part, on August 1, 2026, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS--Redemption of Bonds."

**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 "BOND INSURANCE" and "APPENDIX B--Specimen Municipal Bond Insurance Policy."**

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

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

This Official Statement is not to be used in connection with 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 the District, c/o Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046 upon payment of duplication costs.

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 condition of the District or other matters described herein since the date hereof. 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 and thereafter only as specified in "PREPARATION OF THE OFFICIAL STATEMENT-- Updating of Official Statement."

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

## **SALE AND DISTRIBUTION OF THE BONDS**

### **Prices and Marketability**

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter prior to delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter or control regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the sole responsibility of the Underwriter.

THE PRICES AND OTHER TERMS RESPECTING 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 special district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional governmental 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 Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

### **Underwriter**

The Bonds are being purchased by SAMCO Capital Markets, Inc. and UMB Bank (collectively, the "Underwriter") pursuant to a bond purchase agreement with the District (the "Bond Purchase Agreement") at a price of \$3,313,276.65 (being the par amount of the Bonds, plus a premium on the Bonds of \$258,378.65 less an underwriter's discount of \$25,102.00), plus accrued interest on the Bonds to the date of delivery. The obligation of the Underwriter to purchase the Bonds is subject to certain conditions contained in the Bond Purchase Agreement.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the inside cover page hereof. The initial offering price may be changed from time to time by the Underwriter within the guidelines prescribed by applicable laws and regulations of the United States Securities and Exchange Commission.

### **Municipal Bond Rating**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign its municipal rating of "AA" (stable outlook) to the Bonds and Moody's Investors Service, Inc. ("Moody's") is expected to assign its municipal rating of "A2" (stable outlook), both as a result of a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. at the time of delivery of the Bonds (see "BOND INSURANCE" and "APPENDIX B—Specimen Municipal Bond Insurance Policy"). An explanation of the significance of such rating may be obtained from S&P and Moody's. The ratings reflects only the views of S&P and Moody's and the District makes no representation as to the appropriateness of such ratings.

In connection with the sale of the Bonds, the District made application to Moody's, which has assigned an underlying rating of A2 to the Bonds. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the view of Moody's and the District makes no representation as to the appropriateness of such rating.

The District can make no assurance that the S&P or Moody's ratings will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P or Moody's if in the judgment of S&P or Moody's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## SUMMARY

The following information is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is made for all purposes. This summary should not be detached and should be used in conjunction with more complete information contained herein.

### - The District -

Issuer/Description	Kleinwood Municipal Utility District (the "District") was created by order of the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality ("TCEQ"), effective May 3, 1972. The District contains approximately 684.61 acres, is located approximately 20 miles north of Houston's central business district, and is approximately 5½ miles west of Interstate Highway 45. It is bounded on the west by Cypress Forest Public Utility District, on the north by Harris County Water Control & Improvement District No. 114 and Harris County Municipal Utility District No. 24 and on the south by Cypress Creek. The entire District lies within the exclusive extraterritorial jurisdiction of the City of Houston and within the Klein Independent School District. See "THE DISTRICT--Description of the District."
Authority	The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT--Authority."
Development Within The District	Development within the District consists of 786 single-family residences, four single-family residences under construction, 85 commercial connections and four multi-family apartment and condominium complexes with a total of 768 units. See "THE DISTRICT--Status and History of Development."

### - The Bonds -

Description	The District's \$3,080,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2020 (the "Bonds") bear interest at the rates per annum set forth on the inside cover page hereof from July 1, 2020. Interest is payable February 1, 2021 and each August 1 and February 1 thereafter until the earlier of maturity or prior redemption. The Bonds mature serially on August 1 in the years 2021 through 2029, inclusive, in the principal amounts set forth on the inside cover page hereof. Bonds scheduled to mature on or after August 1, 2027, are subject to redemption at the option of the District on any date on or after August 1, 2026, at a price of par plus accrued interest to the date of redemption. See "THE BONDS--Description" and "--Optional Redemption."
Source of Payment	Principal of and interest on the Bonds are payable from (a) the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District and (b) a pledge of the Net Revenues (as defined herein), if any, of the District's waterworks and sewer system. The Bonds are obligations of the District and are not obligations of Harris County, the State of Texas, the City of Houston, or any political subdivision other than the District. See "THE BONDS — Source of and Security for Payment."
Use of Proceeds	Proceeds of the Bonds will be used to currently refund the August 1, 2021 and 2022 maturities of the District's Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2011 and the August 1, 2022 through 2029 maturities of the District's Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2012 (collectively, the "Refunded Bonds") and to pay the costs of issuance of the Bonds. See "THE BONDS — Use of Proceeds."



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, and represents that the total amount of tax-exempt bonds (including the Bonds) issued by it during the calendar year 2020 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS--Qualified Tax-Exempt Obligations."
Payment Record	The District has never defaulted on the payment of any bond obligation. See "DISTRICT DEBT."
Book-Entry Only System	The definitive Bonds will be initially registered 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 principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co. and Cede & Co. will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "THE BONDS--Book-Entry Only System."
Legal Opinions	Coats Rose, P.C., Houston, Texas, Bond Counsel. See "LEGAL MATTERS."
Underwriter's and Special Tax Counsel	McCall, Parkhurst & Horton L.L.P., Dallas, Texas.
Verification Agent	Ritz & Associates PA, Bloomington, Minnesota.
Financial Advisor	Blitch Associates, Inc., Houston, Texas.
Municipal Bond Rating	The District made application to Moody's Investors Service, Inc., which has assigned a rating of "A2" to the Bonds based upon the District's underlying credit. See "SALE AND DISTRIBUTION OF THE BONDS--Municipal Bond Rating."
Municipal Bond Rating and Municipal Bond Insurance	S&P is expected to assign a municipal rating of "AA" (stable outlook) and Moody's is expected to assign a municipal rating of "A2," both as a result of a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. See "SALE AND DISTRIBUTION OF THE BONDS--Municipal Bond Rating," "BOND INSURANCE" and "APPENDIX B--Specimen Municipal Bond Insurance Policy."

## RISK FACTORS

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



**- Financial Highlights -  
(Unaudited)**

2019 Taxable Assessed Valuation (100% of Market Value)	\$376,437,846	(a)
Direct Debt		
Outstanding Bonds (As of June 1, 2020)	\$9,604,992	
Less: The Refunded Bonds	(3,200,000)	*
The Bonds	<u>3,080,000</u>	*
Total Direct Debt	\$9,484,992	
Estimated Overlapping Debt	<u>21,351,831</u>	(b)
Direct and Estimated Overlapping Debt	<u><u>\$30,836,823</u></u>	
Direct Debt Ratios:		
Direct Debt to Value	2.52%	
Direct & Estimated Overlapping Debt to Value	8.19%	
2019 Tax Rate per \$100 of Assessed Value		
Debt Service	\$0.276	
Maintenance	<u>0.119</u>	
Total	<u><u>\$0.395</u></u>	
	<b><u>Current</u></b>	<b><u>Total</u></b>
2018 Tax Collection Percentage	99.30%	99.63%
Five-Year Average (2014/2018) Collection Percentage	99.37%	99.94%
Average Annual Debt Service Requirements (2020/2030)		\$1,099,896
Maximum Annual Debt Service Requirements (2030)		\$1,180,000
Tax Rate Required to pay such Requirements at 98% Collection		
Average (2020/2030)		\$0.299
Maximum (2030)		\$0.320
Fund Balances as of May 25, 2020 (Cash & Investments)		
General Fund		\$3,511,779
Debt Service Fund		\$1,712,726
Capital Projects Fund		None

(a) Certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."

(b) See "DISTRICT DEBT--Estimated Overlapping Debt."

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**\$3,080,000**  
**WATERWORKS AND SEWER SYSTEM COMBINATION**  
**UNLIMITED TAX AND REVENUE REFUNDING BONDS, SERIES 2020**

This Official Statement of Kleinwood Municipal Utility District (the "District") is provided to furnish certain information with respect to the sale by the District of its \$3,080,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution; the general laws of the State of Texas, including Chapter 1207 of the Texas Government Code, as amended and Chapters 49 and 51 of the Texas Water Code, as amended; a resolution authorizing the issuance of the Bonds (the "Resolution") adopted by the Board of Directors of the District (the "Board"); Article XVI, Section 59 of the Texas Constitution; and City of Houston Ordinance No. 97-416. See "THE BONDS." The Board has delegated final pricing of the Bonds to an authorized representative who will execute a pricing certificate (the "Pricing Certificate") on the date of sale of the Bonds to effectuate the sale. The Resolution and the Pricing Certificate are collectively referred to herein as the "Bond Resolution."

This Official Statement includes descriptions of the Bonds and the Bond Resolution and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document, copies of which may be obtained by contacting the District, c/o Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046.

**THE BONDS**

**Description**

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 Resolution. A copy of the Bond Resolution may be obtained upon request to the District and payment of the applicable copying charges.

The Bonds will mature on August 1 of the years and in principal amounts, and will bear interest from July 1, 2020, at the rates per annum, set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable on February 1, 2021, and semiannually thereafter on each August 1 and February 1 thereafter until the earlier of maturity or redemption. Principal of and interest on the Bonds will be payable to Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"), by the paying agent/registrar, initially UMB Bank N.A., Houston, Texas (the "Paying Agent/Registrar"). Cede & Co. will make distribution of the principal and interest so paid to the beneficial owners of the Bonds. For so long as DTC shall continue to serve as securities depository for the Bonds, all transfers of beneficial ownership interest will be made by book-entry only and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of the Bonds is to receive, hold or deliver any Bond certificate.

If at any time, DTC ceases to hold the Bonds as securities depository, then principal of the Bonds will be payable to the registered owner at maturity or redemption upon presentation and surrender at the principal payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15<sup>th</sup> day of the month next preceding the interest payment date (the "Record Date"). The Bonds of each maturity will be issued in fully-registered form only in the principal amount of \$5,000 or any integral multiple thereof.

If the specified date for any payment of principal (or redemption price) or interest on the Bonds shall be a Saturday, Sunday or legal holiday or equivalent (other than a moratorium) for banking institutions generally in the City of Houston, Texas, such payment may be made on the next succeeding date which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payments.

## Use of Proceeds

Proceeds of the Bonds will be used to currently refund the August 1, 2021 and 2022 maturities of the District's Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2011 and the August 1, 2022 through 2029 maturities of the District's Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2012 (collectively, the "Refunded Bonds") and to pay the costs of issuance of the Bonds. The Refunded Bonds consist of the following:

<u>Maturity</u>	<u>Series 2011</u>	<u>Series 2011</u>		<u>Series 2012</u>	<u>Series 2012</u>
<u>August 1</u>	<u>Amount</u>	<u>Rate</u>		<u>Amount</u>	<u>Rate</u>
2021	\$265,000	4.000%	(a)		
2022	275,000	4.000%	(a)	\$360,000	4.000%
2023				635,000	4.000%
2024				665,000	4.000%
2025				185,000	(b) 4.000%
2026				190,000	(b) 4.000%
2027				205,000	(c) 3.000%
2028				210,000	(c) 3.000%
2029	<u>          </u>			<u>210,000</u>	4.000%
Totals	<u>\$540,000</u>			<u>\$2,660,000</u>	
Call Date	August 5, 2020			August 5, 2020	

(a) Represents sinking fund redemption payment for term bond maturing on August 1, 2022.

(b) Represents sinking fund redemption payment for term bond maturing on August 1, 2026.

(c) Represents sinking fund redemption payment for term bond maturing on August 1, 2028.

The proceeds derived from the sale of the Bonds will be applied as follows:

***Sources:***

Par Amount	\$3,080,000.00
Reoffering Premium	258,378.65
Accrued Interest	<u>10,719.44</u>
Total Sources	<u><u>\$3,349,098.09</u></u>

***Uses:***

Cash Deposit for Refunding	\$3,201,376.11
Underwriter's Discount	25,102.00
Insurance Premium	7,372.80
Costs of Issuance	<u>115,247.18</u>
Total Uses	<u><u>\$3,349,098.09</u></u>

**Refunded Bonds**

In the Bond Resolution, the District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from money held by the paying agent for the Refunded Bonds, Wells Fargo Bank, N.A. (the "Paying Agent for the Refunded Bonds").

Proceeds from the sale of the Bonds will be used to refund the Refunded Bonds in order to lower the District's overall debt service and to pay costs of issuing the Bonds. The Refunded Bonds and the interest due thereon are to be paid on the date of redemption from funds to be deposited with the Paying Agent for the Refunded Bonds.

The Bond Resolution provides that from a portion of the proceeds of the sale of the Bonds to the underwriter listed on the cover page hereof ( the "Underwriter"), together with other legally available funds of the District, if any, the District will deposit with the Paying Agent for the Refunded Bonds, the amount necessary to accomplish the discharge and final payment of the Refunded Bonds.'

Ritz & Associates PA, A Professional Association, a firm of independent certified public accountants, will verify at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the funds on deposit with the Paying Agent for the Refunded Bonds will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such funds on deposit with the Paying Agent for the Refunded Bonds will not be available to pay the Bonds. See "VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS."

By the deposit of the cash with the Paying Agent for the Refunded Bonds, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, and 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, and such Refunded Bonds will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds deposited with the Paying Agent for the Refunded Bonds.

**Book-Entry-Only System**

*This section describes how ownership of the Bonds are to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

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

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

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases 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 or 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 interest 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 the 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 nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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 nor its nominee, Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent/Registrar, disbursement of such payments to Direct Participants shall 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds 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.

### **Registration and Transfer**

The Bonds will be transferable only on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal aggregate principal of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the principal office of the Paying Agent/Registrar in Houston, Texas. No service charge will be made for any registration, transfer or exchange of Bonds, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith. Neither the District nor the Paying Agent/Registrar is required to issue, transfer or exchange any Bond during the period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding interest payment date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning 15 calendar days prior to the date of the first mailing of any notice of redemption and ending at the close of business on the date of such mailing, or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

### **Optional Redemption**

The District reserves the right, at its option, to redeem the Bonds maturing on or after August 1, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof on August 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the Paying Agent/Registrar shall select by lot those Bonds to be redeemed.

At least thirty (30) days prior to the date fixed for any such redemption a written notice of such redemption shall be given to the registered owner of each Bond or a portion thereof being called for redemption by depositing such notice in the United States mail, first class, postage prepaid, addressed to each such registered owner at his address shown on the registration books of the Paying Agent/Registrar; provided, however, that the failure to receive such notice shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond. By the date fixed for any such redemption due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or the portions thereof which are to be so redeemed, plus accrued interest to the date fixed for redemption. If a portion of any Bond shall be redeemed, a substitute Bond having the same maturity date, bearing interest at the same rate, in any integral multiple of \$5,000, and in aggregate principal amount equal to the unredeemed position thereof, will be issued to the registered owner upon the surrender of the Bonds being redeemed, at the expense of the District, all as provided for in the Bond Resolution.

### **Ownership**

The District, the Paying Agent/Registrar and any agent of either may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of receiving payment of the principal and the interest thereon, and for all other purposes, whether or not such Bond is overdue. Neither the District, the Paying Agent/Registrar nor any agent of either shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the owner of any Bond in accordance with the Bond Resolution shall be valid and effective and shall discharge the liability of the District and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

### **Source of and Security for Payment**

The Bonds and the Remaining Outstanding Bonds (as hereinafter defined) (together with any additional unlimited tax or combination unlimited tax bonds as may hereafter be issued) are payable as to principal and interest from the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Resolution, the District covenants to levy annually a tax sufficient in amount to pay principal of and interest on the Bonds, full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the District's debt service fund and used solely to pay principal and interest on the Bonds, the Remaining Outstanding Bonds and on any additional bonds payable from taxes which may be issued. See "Issuance of Additional Debt" below.

The Bonds are further payable from and secured by a pledge of and lien on certain Net Revenues, if any, of the District's waterworks, sanitary sewer and drainage system (the "System"). "Net Revenues" are defined in the Bond Resolution as all income or increment which may grow out of the ownership and operation of the District's System, less such funds as reasonably may be required to provide for the administration, efficient operation and adequate maintenance of the District's plants, facilities and improvements. It is not expected that the Net Revenues from the District's System will ever be used to pay debt service on the Bonds. The Net Revenues are entirely dependent upon the sale of water and sewer services to users in the District.

### **Replacement of Paying Agent/Registrar**

Provision is made in the Bond Resolution for the replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Paying Agent/Registrar. In order to act as Paying Agent/Registrar for the Bonds, any paying agent/registrar selected by the District shall be a national or state banking institution, organized and doing business under the laws of the United



States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority.

### **Authority for Issuance**

The District has issued ten installments of \$31,310,000 in bonds for waterworks, sanitary sewer and drainage facilities authorized at various elections held within the District for that purpose in 1973, 1974, 1976, 1985 and 2003. An aggregate of \$19,355,000 principal amount of bonds remains authorized but unissued. Additionally, at an election held within the District on December 1, 1990, voters authorized the issuance of \$11,455,000 in refunding bonds, of which \$2,735,139 have been issued in six separate previous refundings. Following issuance of the Bonds, there will remain an aggregate of \$8,486,584 in authorized but unissued refunding bonds. See "Issuance of Additional Debt."

The Bonds are issued pursuant to the Texas Constitution; the general laws of the State of Texas, including Chapter 1207 of the Texas Government Code, as amended and Chapters 49 and 51 of the Texas Water Code, as amended; a resolution authorizing the issuance of the Bonds (the "Resolution") adopted by the Board of Directors of the District (the "Board"); Article XVI, Section 59 of the Texas Constitution; and City of Houston Ordinance No. 97-416.

### **Outstanding Debt**

The District has previously issued its \$4,625,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2011 (the "Series 2011 Bonds"); \$3,780,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2012 (the "Series 2012 Bonds"); \$2,544,996 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2014 (the "Series 2014 Bonds"); and \$3,689,996 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2015 (the "Series 2015 Bonds"). As of June 1, 2020, \$800,000 of the Series 2011 Bonds, \$3,355,000 of the Series 2012 Bonds, \$2,414,996 of the Series 2014 Bonds, and \$3,034,996 of the Series 2015 Bonds remain outstanding (the "Outstanding Bonds"). The District has timely made payments due on the Outstanding Bonds.

After issuance of the Bonds, \$6,404,992 principal amount of the Outstanding Bonds will remain outstanding (the "Remaining Outstanding Bonds.")

### **Issuance of Additional Debt**

The District may issue additional bonds to provide those improvements for which the District was created. \$19,355,000 unlimited tax and revenue bonds authorized by the District's voters remain unissued. The District may issue up to \$4,500,000 additional bonds within the next twelve months.

According to the District's Engineer, the remaining authorized but unissued bonds will be sufficient to extend the utility system to the remaining 7.93 undeveloped acres within the District. Depending upon the rate of development and increases in assessed valuation of taxable property within the District and the amount, maturity schedule and time of issuance of such additional bonds, increases in the District's annual tax rate may be required to provide for the payment of the principal of and interest on such additional bonds, the Remaining Outstanding Bonds and the Bonds. Additional tax bonds and/or tax and revenue bonds may be voted in the future. The Board is further empowered to borrow money for any lawful purpose and pledge the revenues of the waterworks and sewer system therefor and to issue bond anticipation notes and tax anticipation notes.

The Bond Resolution imposes no limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may be on a parity with the Bonds, and may dilute the security of the Bonds.

### **Defeasance**

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

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

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

### **Mutilated, Lost, Stolen or Destroyed Bonds**

The District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

### **Annexation and Consolidation**

The District is located entirely within the extraterritorial jurisdiction of the City of Houston, Texas (the "City"). Under Texas law, a municipality may annex a district with a population of 200 residents or more only if: (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation. Notwithstanding the foregoing, a municipality may annex an area if each owner of land in the area requests annexation. As of the date hereof, the District had an estimated population in excess of 200, thus triggering the voter approval and/or landowner consent requirements discussed above. The described election and petition process does not apply, however, during the term of a strategic partnership agreement between a municipality and a district specifying the procedures for annexation of all or a portion of the District.

The District has the right to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and sewer system with the water and sewer systems of the district or districts with which it is consolidating. Should any such consolidation occur, the net revenues from the operation of the consolidated system would be applied to the payment of principal, interest, redemption price and bank charges on the combination unlimited tax and revenue bonds of the District, if any, and of the district or districts with which the District is consolidated without prejudice to

any series of bonds, except that bonds with subordinate liens on net revenues shall continue to be subordinate. No representations are made that the District will ever consolidate its utility system with other systems.

### **Strategic Partnership Agreement with City of Houston**

The District entered into a Strategic Partnership Agreement (“SPA”) with the City of Houston (the “City”) effective as of December 13, 2010 whereby the tracts of land containing commercial development were annexed into the City for the limited purpose of applying certain of the City’s Planning, Zoning, Health and Safety Ordinances to the commercial businesses. The City imposes a Sales and Use Tax within the annexed tracts on the receipts from the sales and use at retail of taxable items at the rate of one percent or such other rate as may be imposed by the City from time to time. Under the SPA, one-half or 50% of the sales tax revenue generated by the commercial business will be paid to the District, and the District can use the sales tax for any purpose for which the District is lawfully authorized. Neither the District nor any owners of taxable property in the District is liable for any present or future debts of the City and current and future ad valorem taxes levied by the City will not be levied on taxable property in the District.

Under the SPA the City agrees that it will not annex all or part of the District for a period of thirty years.

The Bonds are not obligations of the City and the SPA does not obligate the City, either directly or indirectly to pay the principal of and interest on the Bonds.

### **Amendments to the Bond Resolution**

The District may, without the consent of or notice to any registered owners, amend the Bond Resolution in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Resolution; provided that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (a) extend the time or times of payment of the principal of and interest (or accrual of interest) on the Bonds, or reduce the principal amount thereof or the rate of interest thereon or in any other way modify the terms of payment of the principal of or interest on the Bonds, (b) give preference of any Bond over any other Bond, or (c) extend any waiver of default to subsequent defaults. In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

### **Registered Owners’ Remedies and Effects of Bankruptcy**

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 Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of defaults and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

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

foreclose on property within the District or sell property within the District to enforce 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 be further limited by 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 and creditors of political subdivisions, such as the District.

### **Bankruptcy Limitation to Registered Owners' Rights**

The enforceability of the rights and remedies of the registered owners 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. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debt; 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, a district such as the District must obtain approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of such district and will authorize such district to proceed only if the TCEQ determines that such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a registered owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, 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.

### **Legal Investment and Eligibility to Secure Public Funds in Texas**

The following is an excerpt 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 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.

## BOND INSURANCE

### Bond Insurance Policy

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

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

### Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and 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 that it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further rating actions that S&P may take.

On August 13, 2019, Moody's announced that 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 of AGM 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) pic (“AGE”), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders’ surplus of AGM and the contingency reserves and 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 document 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 “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 “BOND INSURANCE.”

## **THE DISTRICT**

### **Authority**

The District is a municipal utility district created by order of the Texas Water Rights Commission, predecessor to the TCEQ, dated May 3, 1972. The District is vested with all of the rights, privileges, authority, and functions conferred by the general laws of the State applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate, acquire, own, and maintain all water and wastewater facilities, improvements and the control and diversion of storm water. The District is additionally empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to issue bonds for such purposes, after approval by the City, the TCEQ and the District's voters of the District's plans in such regard. The District may also provide for waste collection and disposal service, operate and maintain recreational facilities and contract for its own peace officers with power to make arrests when necessary to prevent or abate the commission of any offense against the rules of the District or District property. The District is subject to the continuing supervisory jurisdiction of the TCEQ.

### **Operation and Maintenance of Recreational Facilities**

The District is empowered to operate and maintain recreational facilities and has purchased certain recreation facilities, including tennis courts and a swimming pool. The recreational facilities have been leased to the Kleinwood Maintenance Fund, Inc., a homeowners’ association in the District. Such homeowners’ association operates these facilities for the benefit of the residents in the District.

### **Management of the District**

The District is governed by the Board, consisting of five directors, which has management control and management supervision over all affairs of the District. All of the Board members reside within the District. Directors are elected to serve four-year staggered terms. Directors elections are held in May of odd-numbered years. The current members and officers of the Board are listed below:

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
David C. Guerrero	President	May, 2023
Jeff Gobbell	Vice President	May, 2023
Joseph T. Fratangelo	Secretary/Treasurer	May, 2023
Sherry K. Allard	Assistant V-P & Assistant Secretary	May, 2021
Robert Ehmann	Assistant Secretary	May, 2021

In addition, the District contracts for the services indicated below:

Auditor - The District’s audited financial statements for the fiscal year ended March 31, 2019, were prepared by McCall Gibson Swedlund Barfoot PLLC, Houston, Texas. See "APPENDIX A—Financial Statements of the District” for a copy of the District’s March 31, 2019, audited financial statements. McCall Gibson Swedlund Barfoot PLLC will prepare the March 31, 2020 audited financial statements.

Legal Counsel - The District employs Coats Rose, P.C., Houston, Texas, as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of Bonds actually issued and sold; and therefore, such fees are contingent on the sale and delivery of the Bonds. Such firm also acts as general counsel to the District.



Financial Advisor - The District's financial advisor is Blitch Associates, Inc., Houston, Texas. The fees to be paid to the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of Bonds actually issued and sold; and therefore, such fees are contingent on the sale and delivery of the Bonds.

Bookkeeper - The District's books and records are kept by Claudia Redden & Associates, Inc., Spring, Texas.

Engineer - The consulting engineer for the District is Jones & Carter, Inc., The Woodlands, Texas.

Operator - The operator of the District's System is Environmental Development Partners, LLC, Houston, Texas.

Tax Assessor/Collector - The District's Tax Assessor/Collector is Wheeler & Associates, Inc., Houston, Texas.

Contract for Peace Officers - The District has contracted with Harris County, Texas, to provide two peace officers to the District. The peace officers are authorized under Texas Law to make arrests when necessary to prevent or abate the commission of any offense against the rules of the District, District property, or the laws of the State. The peace officers are paid from revenues of the District's water and sewer system.

### **Description of the District**

The District contained approximately 346 acres at creation; subsequent annexations brought the total area within the District to approximately 684.61 acres. The District is located within the exclusive extraterritorial jurisdiction of the City of Houston (the "City"), and is approximately 20 miles north of the central business district of the City, approximately five and one-half miles west of Interstate Highway 45 and two miles north of FM 1960. The District is bounded on the west by Cypress Forest Public Utility District, on the north by Harris County Water Control & Improvement District No. 114 and Harris County Municipal Utility District No. 24, on the east by Veterans Memorial Highway (Stuebner-Airline Road), which is the major thoroughfare traversing the District, and on the south by Cypress Creek.

### **Status and History of Development**

The District currently contains approximately 684.61 acres, which have been developed as follows:

#### ***Developable Acreage***

Developed From Prior Bond Issues	444.28	
Remaining Developable Acreage	<u>7.93</u>	452.21

#### ***Undevelopable Acreage***

Streets	24.60	
Drainage Easements	17.80	
Permanent Flood Plain	(a)	
Parks, Recreation & Open Spaces	171.70	
Water Facilities	2.90	
Wastewater Treatment Plant	<u>15.40</u>	<u>232.40</u>

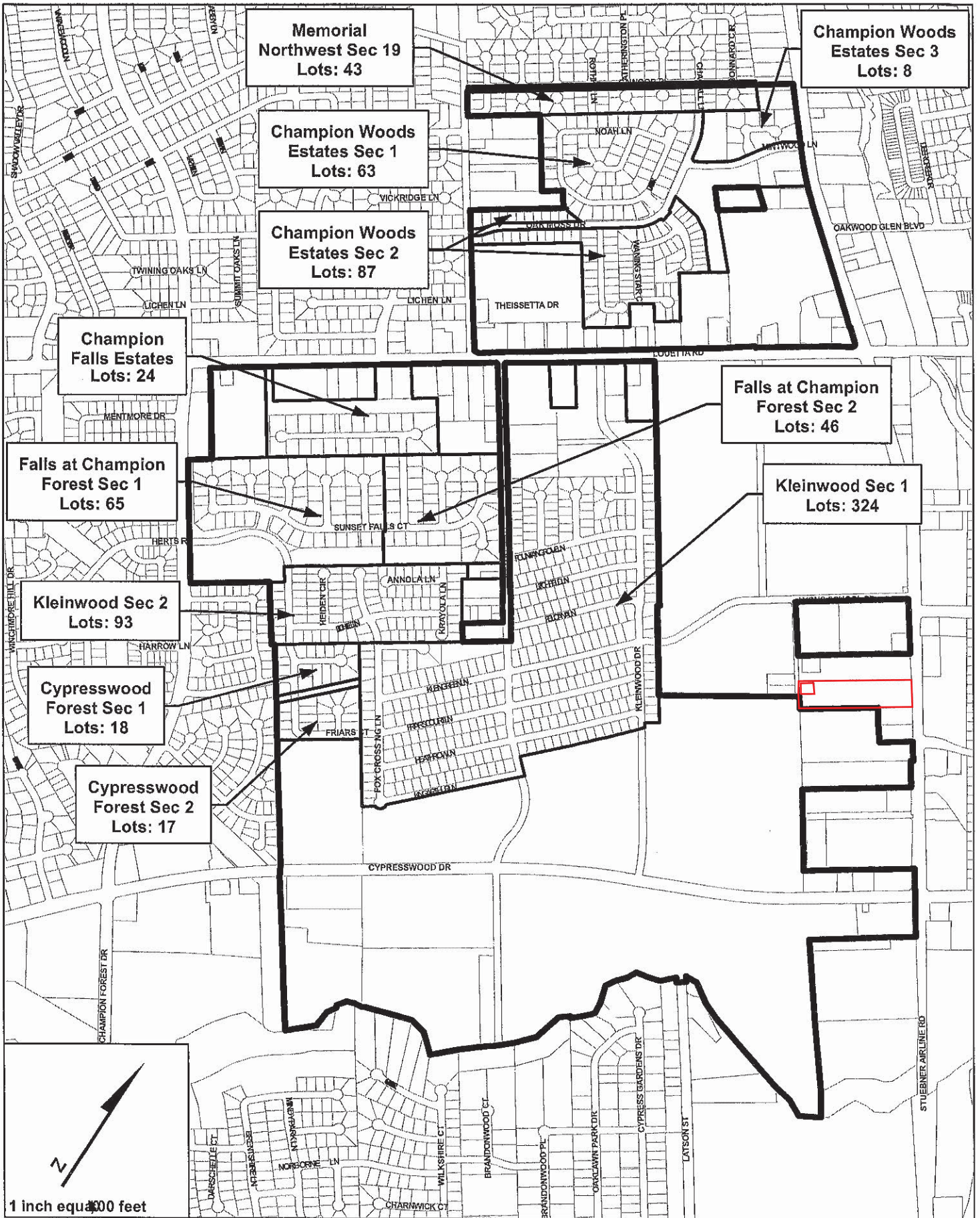
<b><i>Total Acreage</i></b>		<b><u><u>684.61</u></u></b>
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(a) Of the District's 684.61 acres, 231.6 acres are located in the permanent flood plain, including some parks, recreation and wastewater treatment plant acreage.

Development in the District commenced in early 1974, with utilities and streets designed for residential, commercial, retail and commercial office uses. Residential development within the District consists of Kleinwood, Sections One through Two, Memorial Northwest Section 19, Cypresswood Forest Sections 1 and 2, The Falls at Champion Forest, Sections 1 and 2, Champions Falls Estates and Champion Woods Estates Sections 1 and 2, representing a total of 786 completed residences and 4 homes under construction as of June 2020. The District also includes 85 commercial connections, including office buildings, grocery store, retail centers, restaurants, banks and four apartment and condominium complexes with a combined total of 768 units.

Residential development within the District, as of June 2020, is taking place in Champion Falls Estates (22 homes complete, 2 vacant lots). Home prices in Champions Falls Estates range from \$560,000 to \$924,000.

# Map of the District



Path: E:\Districts\Kleinwood\MUD\PRJTS\POS\_8x11\_2014.mxd



Photographs Taken in the District (June 2020)















## DISTRICT DEBT

### Debt Statement

2019 Taxable Assessed Valuation (100% of Market Value)	\$376,437,846	(a)
Direct Debt		
Outstanding Bonds (As of June 1, 2020)	\$9,604,992	
Less: The Refunded Bonds	(3,200,000)	
The Bonds	<u>3,080,000</u>	
Total Direct Debt	\$9,484,992	
Estimated Overlapping Debt	<u>21,351,831</u>	(b)
Direct and Estimated Overlapping Debt	<u><u>\$30,836,823</u></u>	
Direct Debt Ratios:		
Direct Debt to Value	2.52%	
Direct & Estimated Overlapping Debt to Value	8.19%	
Average Annual Debt Service Requirements (2020/30)	\$1,099,896	
Maximum Annual Debt Service Requirements (2030)	\$1,180,000	
Fund Balances as of May 25, 2020 (Cash & Investments)		
General Fund	\$3,511,779	
Debt Service Fund	\$1,712,726	
Capital Projects Fund	None	

(a) Certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."

(b) See "Estimated Overlapping Debt."

## Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdiction and/or the Texas Municipal Reports. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes. See "TAX DATA--Estimated Overlapping Taxes."

<u>Jurisdiction</u>	<u><i>Debt As Of June 1, 2020</i></u>	<u><i>Overlapping Percent</i></u>	<u><i>Overlapping Amount</i></u>
Harris County (a)(b)	\$2,105,487,125	0.078%	\$1,642,280
Harris County Department of Education	6,320,000	0.078%	4,930
Harris County Flood Control District	83,075,000	0.078%	64,799
Harris County Hospital District	86,050,000	0.078%	67,119
Klein Independent School District	1,098,240,000	1.649%	18,109,978
Lone Star College System	570,855,000	0.178%	1,016,122
Port of Houston Authority	572,569,397	0.078%	<u>446,604</u>
Estimated Overlapping Debt			\$21,351,831
The District			<u>9,484,992</u>
Total Direct & Estimated Overlapping Debt			<u><u>\$30,836,823</u></u>

(a) Includes \$220,305,000 Toll Road Bonds assumed to be self-supporting.

(b) Includes \$406,485,000 Flood Control District Contract Bonds, paid from Harris County ad valorem taxes.

## Debt Service Schedule

The following sets forth the debt service requirements on the District's Outstanding Bonds and the Bonds. (Note: Totals may not add due to rounding)

<u>Year</u>	<u>Outstanding Debt Service</u>	<u>Refunded Debt Service</u>	<u>The Bonds Principal</u>	<u>The Bonds Interest</u>	<u>The Bonds Total D/S</u>	<u>Grand Total Debt Service</u>
2020	\$1,080,188					\$1,080,188
2021	1,078,163	(388,850)	255,000	122,958	377,958	1,067,271
2022	1,081,563	(748,250)	625,000	103,300	728,300	1,061,613
2023	1,117,013	(722,850)	625,000	78,300	703,300	1,097,463
2024	1,114,700	(727,450)	650,000	53,300	703,300	1,090,550
2025	1,119,900	(220,850)	170,000	27,300	197,300	1,096,350
2026	1,116,800	(218,450)	175,000	20,500	195,500	1,093,850
2027	1,132,650	(225,850)	190,000	13,500	203,500	1,110,300
2028	1,128,775	(224,700)	195,000	7,800	202,800	1,106,875
2029	1,133,900	(218,400)	195,000	3,900	198,900	1,114,400
2030	<u>1,180,000</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>1,180,000</u>
	<u>\$12,283,650</u>	<u>(\$3,695,650)</u>	<u>\$3,080,000</u>	<u>\$430,858</u>	<u>\$3,510,858</u>	<u>\$12,098,858</u>
Average Annual Debt Service (2020/2030)						\$ 1,099,896
Maximum Annual Debt Service (2030)						\$ 1,180,000

## Historical Operations of the Debt Service Fund

The following statement sets forth in condensed form the historical operations of the District's Debt Service Fund. Such information has been prepared based upon information obtained from the District's audited financial statements. Reference is made to such statements for further and complete information.

	<b><u>Fiscal Years Ended March 31,</u></b>				
	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Revenues					
Tax Revenues	\$1,012,472	\$1,073,641	\$1,007,147	\$1,111,137	\$1,090,704
Penalty & Interest	7,887	9,476	17,884	9,107	7,462
Other	<u>25,952</u>	<u>16,154</u>	<u>5,991</u>	<u>2,140</u>	<u>602</u>
Total Revenues	\$1,046,311	\$1,099,271	\$1,031,022	\$1,122,384	\$1,098,768
Expenditures					
Debt Service	\$1,065,050	\$1,061,675	\$1,086,800	\$1,013,463	\$1,058,190
Cost of Collection	<u>51,292</u>	<u>54,119</u>	<u>78,789</u>	<u>52,054</u>	<u>51,512</u>
Total Expenditures	<u>\$1,116,342</u>	<u>\$1,115,794</u>	<u>\$1,165,589</u>	<u>\$1,065,517</u>	<u>\$1,109,702</u>
Net Revenues	(\$70,031)	(\$16,523)	(\$134,567)	\$56,867	(\$10,934)
Fund Balance - Beginning	1,933,337	1,949,860	1,999,427	1,936,014	1,951,389
Transfers	0	0	85,000	0	0
Net Refunding Proceeds	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,546</u>	<u>(4,441)</u>
Fund Balance - End of Year	<u>\$1,869,306</u>	<u>\$1,933,337</u>	<u>\$1,949,860</u>	<u>\$1,999,427</u>	<u>\$1,936,014</u>
Cash/Investments - Year End	<u>\$1,894,108</u>	<u>\$1,954,695</u>	<u>\$1,972,012</u>	<u>\$2,026,822</u>	<u>\$1,982,547</u>

## TAX PROCEDURES

### Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see "RISK FACTORS – Future Debt"), and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully above under "THE BONDS – Source of and Security for Payment." Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and the System and for the payment of certain contractual obligations. At an election held within the District on December 4, 1974, the voters in the District authorized the levy of a maintenance and operation tax of not to exceed \$0.25 per \$100 assessed valuation. For the 2019 tax year, a debt service tax of \$0.276 per \$100 assessed valuation plus a maintenance and operation tax of \$0.119 per \$100 assessed value is levied within the District, for a total of \$0.395 per \$100 assessed valuation.

## **Property Tax Code and County-Wide Appraisal Districts**

Title I of the Texas Tax Code (the “Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Tax Code are complex and are not fully summarized here. The Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district.. The Harris County Appraisal District (the “Appraisal District”) has the responsibility of appraising property for all taxing units within the County including the District. Such appraisal values will be subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”).

## **Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District currently grants a homestead exemption of \$25,000 to persons who are 65 years of age or older and to disabled homestead owners. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization. This exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead if the surviving spouse has not remarried since the service member’s death and said property was the service member’s residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead if the surviving spouse has not remarried since the first responder’s death, and said property was the first responder’s residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

**Residential Homestead Exemption:** The Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. The District currently grants the 20% homestead exemption.

**Freeport Goods Exemption:** A “Freeport Exemption” applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A “Goods-in-Transit” Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2012 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2013 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

The County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City (after annexation of the land within the District), the County, and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. Currently, no part of the District has been designated as a reinvestment zone.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Tax Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value of the property.

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

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

### **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 timely petition for review in district court. 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 compel compliance with the Property Code.

The Property Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property 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.

### **Levy and Collection of Taxes**

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



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

### **Rollback of Operation and Maintenance Tax Rate**

During the 86th Regular Legislative Session, Senate Bill 2 (“SB 2”) was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See “Financial Highlights” for a description of the District’s current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

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

#### *Special Taxing Units*

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

#### *Developed Districts*

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

#### *Developing Districts*

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

election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

#### *The District*

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

#### **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year in which the tax is imposed. 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 the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two years for residential and agricultural property and six months for commercial property and all other types of property after the purchaser's deed at the foreclosure sale is filed in the county records.

#### **Reappraisal of Property after Disaster**

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property. Although the Texas governor declared Harris County (and therefore the District) a disaster area after Hurricane Harvey, the District did not authorize a reappraisal of property in the District.

#### **Tax Payment Installments after Disaster**

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date. The District does not anticipate that taxpayers in the District, if any, that choose to pay taxes in installments as a result of Hurricane Harvey will have a material effect on the District's finances or its ability to pay debt service on the Bonds.

## TAX DATA

### General

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Remaining Outstanding Bonds, the Bonds, and any future tax-supported bonds which may be issued from time to time as may be authorized. Taxes are levied by the District each year, against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and become delinquent after January 31 of the following year. The Board covenants in the Bond Resolution to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds.

### Tax Collection History

The following table indicates the collection history for taxes assessed by the District:

<u><i>Tax Year</i></u>	<u><i>Taxable Valuation</i></u>	<u><i>D/S Tax</i></u>	<u><i>M&amp;O Tax</i></u>	<u><i>Total Tax</i></u>	<u><i>Tax Levy</i></u>	<u><i>Percent Current</i></u>	<u><i>Percent Total</i></u>	<u><i>Yr End Sept 30</i></u>
2008	\$263,656,235	\$0.4422	\$0.1878	\$0.6300	\$1,661,858	98.57%	99.75%	2009(a)
2009	267,809,570	0.4422	0.1878	0.6300	1,688,919	99.26%	100.71%	2010(a)
2010	256,734,985	0.4500	0.1800	0.6300	1,618,607	99.56%	99.82%	2011
2011	272,366,416	0.4300	0.1700	0.6000	1,664,889	99.55%	100.12%	2012
2012	267,413,433	0.4200	0.1400	0.5600	1,522,894	99.52%	99.83%	2013
2013	276,787,055	0.4050	0.1255	0.5300	1,495,270	99.54%	99.63%	2014
2014	311,604,610	0.3540	0.1160	0.4700	1,474,816	99.32%	99.51%	2015
2015	339,460,211	0.3270	0.1030	0.4300	1,459,661	99.72%	100.93%	2016
2016	353,903,399	0.3000	0.1050	0.4050	1,453,932	99.15%	99.54%	2017
2017	358,923,790	0.2950	0.1000	0.3950	1,420,911	99.32%	99.99%	2018
2018	355,997,662	0.2900	0.1050	0.3950	1,432,527	99.30%	99.63%	2019
2019	376,437,846	0.2760	0.1190	0.3950	1,507,620	97.51%	97.71%	2020(b)

(a) Collections through tax year 2009 shown on an August 31 year-end basis.

(b) Collections through April 30, 2020 only.

## Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, a tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on January 1 of that year. The tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administrative, and/or general revenue purposes.

<u><i>Taxing Entities</i></u>	<u><i>2019 Tax Rates</i></u>
Harris County	\$0.407130
Harris County Department of Education	0.005000
Harris County Emergency Services District No. 11	0.034707
Harris County Emergency Services District No. 16	0.049500
Harris County Flood Control District	0.027920
Harris County Hospital District	0.165910
Klein Independent School District	1.360000
Lone Star College System	0.107800
Port of Houston Authority	<u>0.010740</u>
Overlapping Taxes	\$2.168707
The District	<u>0.395000</u>
Total Direct & Overlapping Taxes	<u><u>\$2.563707</u></u>

## Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of assessed valuation which would be required to meet certain debt service requirements if no growth in the District's tax base occurs beyond the 2019 Taxable Value (\$376,437,846). The calculations assume collection of 98% of taxes levied and the sale of no additional bonds (other than the Bonds) by the District.

Average Annual Debt Service Requirements (2020/2030)	\$1,099,896
Tax Rate of \$0.299 on the 2019 Taxable Value produces	\$1,103,038
Maximum Annual Debt Service Requirements (2030)	\$1,180,000
Tax Rate of \$0.320 on the 2019 Taxable Value produces	\$1,180,509

## Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the tax roll valuations for each of the years indicated:

	<b><u>2019</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2018</u></b>
	<b><u>Amount</u></b>	<b><u>%</u></b>	<b><u>Amount</u></b>	<b><u>%</u></b>
Land	\$113,248,529	22.89%	\$111,695,792	23.59%
Improvements	360,825,711	72.95%	341,166,205	72.06%
Personal Property	<u>20,577,720</u>	4.16%	<u>20,572,265</u>	4.35%
Subtotal	\$494,651,960		\$473,434,262	
Less: Exemptions	<u>(119,321,486)</u>		<u>(117,436,600)</u>	
Totals	<u><u>\$375,330,474</u></u>		<u><u>\$355,997,662</u></u>	

	<b><u>2017</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2016</u></b>
	<b><u>Amount</u></b>	<b><u>%</u></b>	<b><u>Amount</u></b>	<b><u>%</u></b>
Land	\$106,455,267	22.36%	\$96,041,612	20.81%
Improvements	346,102,909	72.68%	342,417,236	74.19%
Personal Property	<u>23,644,028</u>	4.97%	<u>23,112,950</u>	5.01%
Subtotal	\$476,202,204		\$461,571,798	
Less: Exemptions	<u>(117,278,414)</u>		<u>(107,668,399)</u>	
Totals	<u><u>\$358,923,790</u></u>		<u><u>\$353,903,399</u></u>	

Note: Values shown above may reflect original certified amounts and may differ from those shown elsewhere herein.

## Principal Taxpayers

<u><i>Name of Taxpayer</i></u>	<u><i>Type of Property</i></u>	<u><i>2019 Assd Value</i></u>	<u><i>% Total 2019 A/V</i></u>	<u><i>2018 Assd Value</i></u>	<u><i>% Total 2018 A/V</i></u>
Kleinwood Station LLC	Shopping Center	\$28,105,433	7.36%	\$25,522,487	7.17%
Cypress Lodge Apartments	Apartments	22,500,000	5.90%	21,256,492	5.97%
WREF Timber Canyon LP	Apartments	9,163,954	2.40%	6,819,783	1.92%
District & Urban TX Inc	Shopping Center	7,602,159	1.99%	7,324,954	2.02%
Cole LA Spring Tx LLC	Health Spa	6,506,887	1.70%	6,374,130	1.76%
Cypresswood Investment LP	Medical Center	6,400,000	1.68%	2,669,934	0.75%
Walgreens	Pharmacy	3,930,125	1.03%	3,933,365	1.10%
HEB Grocery Co LP	Grocery Store	2,993,976	0.78%	2,974,702	0.84%
Cofradia Properties No 2	Shopping Center	2,604,230	0.68%	2,068,957	0.58%
SA Vet Investments LLC	Vet Clinic	<u>2,469,269</u>	<u>0.65%</u>	<u>2,283,795</u>	<u>0.64%</u>
Total--Top Ten		<u>\$92,276,033</u>	<u>24.18%</u>	<u>\$81,228,599</u>	<u>22.81%</u>



## **THE SYSTEM**

### **Regulation**

The water, wastewater and storm drainage facilities serving land within the District (the "System") have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, Harris County Engineering Department, Harris County Flood Control District and the City of Houston. During construction, facilities are subject to inspection by the District's Engineer and the foregoing governmental agencies.

Operation of the District's System is subject to regulation by, among others, the United States Environmental Protection Agency, the TCEQ and the City. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

### **Description of the System**

According to the District's Engineer, the total number of connections projected for the District at full development of approximately 684.61 acres is 1,934 equivalent connections. A description of the primary components of the System follows and is based upon information supplied by the Engineer based on drawings and data furnished by others.

Proceeds of the sale of the District's outstanding bonds were used to finance the construction or acquisition of underground water supply, water distribution lines, wastewater collection lines, wastewater treatment plant capacity, and stormwater drainage facilities to serve (a) an aggregate of 816 fully developed single-family lots in the District, (b) four apartment and condominium complexes and (c) unrestricted reserves, for a total of approximately 444.28 acres that is currently developed and served by such utilities as well as another approximately 7.93 acres remaining to be developed. Proceeds of the District's outstanding bonds were also used to pay for the District's portion of the capital costs for Phase I of the construction costs for the North Harris County Regional Water Authority ("NHCRWA") surface water facilities. See "Conversion to Surface Water" below.

#### ***- Water System -***

The District acquires all of its water supply from three existing gravel wall water wells located at the District's water plant site, except for the surface water provided by the NHCRWA as described below. The wells were developed in the Chico, Evangeline and Jasper Aquifers at approximate depths of 1,005 feet, 1,095 feet and 1,974 feet, respectively, and have rated capacities of 1,200, 650 and 1,000 gallons per minute ("gpm"), respectively. The District also has emergency water supply interconnects with Harris County Water Control and Improvement District No. 114 ("WCID 114") and Cypress Klein Utility District ("Cypress Klein"), each served by 12 inch lines, as a backup system.

The District's water plant number 1 consists of a control building, a 428,000 gallon galvanized steel bolted ground storage tank, three 10,000 gallon pressure tanks, a gas chlorinator and all necessary appurtenances. The plant has four booster pumps with capacities of 1,000 gpm, 1,000 gpm, 900 gpm and 500 gpm respectively. The network of existing water distribution mains is comprised of approximately 26,000 linear feet of pipe in diameters of 6 inches, 8 inches and 12 inches. Water plant number 2 consists of a control building, two 428,000 gallon ground storage tanks, one 10,000 gallon pressure tank, plus three booster pumps at 800 gpm each.

#### ***-Conversion to Surface Water-***

The District is located within the boundaries of the Harris-Galveston Subsidence District ("Subsidence District") and the NHCRWA. The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water). The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to an order of the Subsidence District and the NHCRWA's Groundwater Reduction Plan (as approved by the Subsidence District), the area within the boundaries of the NHCRWA must be converted to at least 30% alternate source (e.g., surface) water use by 2010, 60% alternate source

water use by 2025, and 80% alternate source water use by 2035. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA has constructed and operates a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the “NHCRWA System”). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

The District is subject to the NHCRWA’s Groundwater Reduction Plan. Accordingly, the District paid a capital contribution to the NHCRWA to cover the District’s proportionate share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply). (The District may also elect to pay its share of such costs over time through payment of higher fees to the NHCRWA.

The District is currently connected to the NHCRWA System and receives surface water through this system.

Groundwater pumped from wells located within the District is not currently subject to the Subsidence District’s groundwater disincentive fee. However, groundwater pumped from wells located within the District is subject to a \$4.25 per 1,000 gallon pumpage fee (the “Pumpage Fee”) that is assessed and collected by the NHCRWA pursuant to the NHCRWA’s Groundwater Reduction Plan. The Pumpage Fee may increase in the future. The cost for surface water delivered from NHCRWA is currently \$4.70 per 1,000 gallons. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance the acquisition and construction of surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the NHCRWA). The NHCRWA has issued Senior Lien Revenue Bonds in the aggregate principal amount of \$456,675,000, to finance costs related to the design, acquisition and construction of Phase I of the Surface Water Facilities. Such bonds are secured by revenues of the NHCRWA, including the pumpage fee.

#### ***- Wastewater System -***

The District is a participant in a central wastewater treatment plant (“WWTP”) with a rated capacity of 5,000,000 gallons per day (“gpd”). The WWTP currently provides treatment of all wastewater to the following:

<u><b>Entity</b></u>	<u><b>Percentage</b></u>	<u><b>Capacity (gpd)</b></u>
The District	15.00%	750,000
Cypress Forest Public Utility District	26.50%	1,325,000
Cy-Champ Public Utility District	26.75%	1,337,500
Harris County WC&ID 114	16.00%	800,000
Louetta North Public Utility District	12.50%	625,000
Klein Independent School District	<u>3.25%</u>	<u>162,500</u>
	100.00%	5,000,000

The District’s capacity allocation is sufficient, according to the District’s Engineer, to serve up to 2,380 connections based on return wastewater flows of 315 gpd per equivalent connection.

#### ***- Stormwater Drainage -***

The stormwater drainage system is designed to drain into Cypress Creek in accordance with the requirements of the City of Houston, the Harris County Engineer and the Harris County Flood Control District for residential areas and a three-year rainfall. The drainage system consists of approximately 18,000 linear feet of reinforced concrete pipe ranging from 18 inches to 72 inches in diameter.

## Rate Order

The District's utility rate order, subject to change from time to time by the Board, is summarized in part below and became effective on January 23, 2020:

### ***-Water Rates-***

#### *Residential(a)*

First 5,000 gallons	\$7.50 Minimum
Next 5,000 gallons	\$1.30/1,000 gallons
Next 5,000 gallons	\$1.50/1,000 gallons
Next 5,000 gallons	\$1.70/1,000 gallons
Next 10,000 gallons	\$1.90/1,000 gallons
Next 10,000 gallons	\$2.09/1,000 gallons
Over 40,000 gallons	\$2.25/1,000 gallons

#### *Commercial, including clubs and schools (a)*

First 30,000 gallons	\$40.00 Minimum
Next 10,000 gallons	\$2.40/1,000 gallons
Next 60,000 gallons	\$2.55/1,000 gallons
Next 100,000 gallons	\$2.90/1,000 gallons
Next 100,000 gallons	\$3.60/1,000 gallons
Over 300,000 gallons	\$4.40/1,000 gallons

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(a) The assessment for groundwater use currently imposed by the NHCRWA of \$4.25 per 1,000 gallons of water is added to each customer's bill.

### ***-Sewer Rates-***

#### *Residential*

Flat Rate	\$10.00
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#### *Commercial*

\$1.75 per 1,000 gallons of water used

## Historical Operations of the General Operating Fund

The following statement sets forth in condensed form the historical operations of the District's General Operating Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such information has been prepared based upon information obtained from the District's audited financial statements (except for the fiscal year ending March 31, 2020, which was extracted from District records), reference to which is made for further and complete information.

	<i><u>Fiscal Year Ended March 31,</u></i>					
	<u>2020(a)</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues						
Property Taxes	\$448,243	\$317,628	\$364,130	\$352,075	\$350,211	\$357,277
Water Service	462,059	397,742	521,473	401,260	411,346	434,344
Wastewater Service	216,071	213,667	211,771	215,073	221,994	223,166
Regional Water Authority	933,807	772,069	626,478	515,672	454,127	461,095
Penalty & Interest	12,857	15,301	9,656	9,055	9,524	10,507
Tap Connection/Inspection	142,800	47,300	144,259	27,511	54,228	111,944
Water Authority Credits	110,246	110,246	110,246	110,246	110,246	110,246
Sales Tax Revenues	307,876	305,340	317,824	343,445	311,936	286,773
Miscellaneous Revenues	<u>115,648</u>	<u>103,802</u>	<u>27,245</u>	<u>48,773</u>	<u>21,677</u>	<u>15,155</u>
Total Revenues	\$2,749,607	\$2,283,095	\$2,333,082	\$2,023,110	\$1,945,289	\$2,010,507
Expenditures						
Professional Fees	\$260,746	\$206,966	\$158,552	\$132,786	\$265,339	\$210,899
Contracted Services	235,231	228,324	224,964	218,316	85,395	86,730
Purchased Services	767,916	625,945	714,287	515,000	456,305	482,597
Purchased Wastewater	130,635	125,891	135,742	127,002	91,489	138,013
Utilities	48,827	60,451	66,035	65,093	77,340	66,058
Repairs & Maintenance	281,889	320,250	194,617	326,813	416,657	220,631
Water Authority Pumpage	196,412	216,012	213,292	163,541	142,928	131,966
Other Expenditures	<u>190,034</u>	<u>140,927</u>	<u>196,856</u>	<u>125,288</u>	<u>296,315</u>	<u>251,598</u>
Total Expenditures	<u>\$2,111,690</u>	<u>\$1,924,766</u>	<u>\$1,904,345</u>	<u>\$1,673,839</u>	<u>\$1,831,768</u>	<u>\$1,588,492</u>
Net Revenues	<u>\$637,917</u>	<u>\$358,329</u>	<u>\$428,737</u>	<u>\$349,271</u>	<u>\$113,521</u>	<u>\$422,015</u>
Fund Balance, Beginning		\$4,111,066	\$3,892,434	\$3,876,405	\$4,004,221	\$3,692,618
Adjustments						
Capital Improvements	(296,715)	(1,131,053)	(210,105)	(248,242)	(241,337)	(110,412)
Transfers In (Out)		<u>0</u>	<u>0</u>	<u>(85,000)</u>	<u>0</u>	<u>0</u>
Fund Balance, Ending		<u>\$3,338,342</u>	<u>\$4,111,066</u>	<u>\$3,892,434</u>	<u>\$3,876,405</u>	<u>\$4,004,221</u>
Cash/Investments, Ending (b)		<u>\$3,359,260</u>	<u>\$4,130,336</u>	<u>\$3,862,551</u>	<u>\$3,994,878</u>	<u>\$4,010,201</u>
Percent of Annual Expense		174.53%	216.89%	230.76%	218.09%	252.45%
Customers at End of Year		884	884	877	871	832

(a) Unaudited.

(b) Exclusive of customer deposits.

## **RISK FACTORS**

### **General**

The Bonds, which are obligations of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Houston or any other political subdivision, will be secured by a continuing, direct, annual ad valorem tax, 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. At this point in the development of the District, the potential increase in taxable values of property is directly related to the demand for commercial and residential development, not only because of general economic conditions, but also due to particular factors discussed below.

The economy of the Harris County and southeast Texas regional area is largely dependent on the petrochemical industry. Recent decreases in the price of oil have the potential to negatively affect the economy of Harris County and southeast Texas and decrease housing prices and assessed valuations in the District. The District can make no prediction on what effect current or future oil prices may have on assessed valuations in the District or on the Harris County economy generally.

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

The Houston area, including Harris County, sustained widespread rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days.

According to the District, the System operated without material damage, although a lift station required emergency repairs. The flood waters caused structural flooding of approximately 95 homes and seven commercial tracts during the Hurricane Harvey event. The District cannot predict the effect that additional extreme weather events may have upon the District and the Gulf Coast. Additional extreme weather events have the potential to cause damage within the District and along the Gulf Coast generally that could have a negative effect on taxable assessed valuations in the District and the economy of the District and the region.

If a future weather event significantly damaged taxable property 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.

### **Factors Affecting Taxable Values and Tax Payments**

***Economic Factors:*** The growth of taxable values in the District is directly related to the vitality of the commercial development and housing and building industry in the Houston metropolitan area. The housing and building industry has historically been a cyclical industry, affected by both short and long-term interest rates, availability of mortgage and development funds, labor conditions and general economic conditions. During the late 1980's, an oversupply of single-family residential housing in the Houston metropolitan market and the general downturn in the Houston economy adversely affected the local residential development and construction industries. In addition to a decline in housing demand, mortgage foreclosure by private banks and government and financial institutions depressed housing prices and the value of residential real estate in the Houston metropolitan area. The Houston economy is still dependent on energy prices and a precipitous decline in such prices could result in additional adverse effects on the economy.

***Maximum Impact on District 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 taxes. The 2019 Taxable Valuation is \$376,437,846. See "TAX DATA." After issuance of the Bonds, the maximum annual debt service requirement (2030) is \$1,180,000 and the average annual debt service requirements (2020/2030) is \$1,099,896. Assuming no increase or decrease from the 2019 Taxable Valuation and no use of funds other than tax collections, tax rates of \$0.320 and \$0.299 per \$100 assessed valuation at a 98% collection rate against the 2019 Assessed Valuation, respectively, would be necessary to pay such debt service requirements. The Board levied a tax rate of \$0.276 for debt service purposes and a tax rate of \$0.119 for maintenance and operation purposes for tax year 2019. See "DISTRICT DEBT--Debt Service Schedule" and "TAX DATA--Tax Rate Calculations."

### **Overlapping Tax Rates**

Consideration should be given to the total tax burden of all overlapping jurisdictions imposed upon property located within the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The combination of the District's tax rate and the overlapping taxing entities' tax rates is higher than the combined tax rates levied upon certain other comparable developments in the market area. Consequently, an increase in the District's tax rate above those anticipated above may have an adverse impact on future development or the construction of taxable improvements in the District. See "DISTRICT DEBT--Estimated Overlapping Debt" and "TAX DATA--Estimated Overlapping Taxes."



## **Infectious Disease Outbreak–COVID-19**

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) by the World Health Organization and 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 and on March 13, 2020, the President of the United States (the “President”) declared the outbreak of COVID-19 in the United States a national emergency and the Texas Governor (the “Governor”) declared the Pandemic an imminent threat of disaster for all counties in Texas. Subsequently, the President’s Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States. On March 25, 2020, in response to a report 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 the disaster, and issuing executive orders that have the force and effect of law. The Governor has since 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 and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values and ad valorem tax revenues within the District. See “TAX PROCEDURES.” The Bonds are secured by an 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 operations and maintenance expenses.

While the potential impact of the Pandemic 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.

### **Tax Collection Limitations**

The District’s ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) collection procedures, (b) a bankruptcy court’s stay of tax collection procedures 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. Because ownership of the land within the District may become highly fragmented among a number of taxpayers, 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, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer.

### **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 Order. Except for mandamus, the Bond Order

does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

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

### **Bankruptcy Limitation to Registered Owners' Rights**

The enforceability of the rights and remedies of registered owners 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. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owner's remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivisions.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a registered owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, 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 the registered owner's claim against a district.

### **Environmental Regulation and Air Quality**

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; and
- 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 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, 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, 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).

On 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 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 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. 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 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 non-stormwater 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.

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

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal officially became final on December 23, 2019, but the repeal has itself become the subject of litigation in multiple jurisdictions.

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR is effective June 22, 2020, and is currently the subject of ongoing litigation.

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

### **Future Debt**

The District has \$19,355,000 in authorized but unissued unlimited tax and revenue bonds. The District has the right to issue such bonds and such additional bonds as may hereafter be approved by both the Board and voters of the District. The remaining authorized but unissued bonds may be issued by the District from time to time as needed.

The District may issue up to \$4,500,000 additional bonds within the next twelve months.

### **Proposed Tax Legislation**

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

### **Continuing Compliance with Certain Covenants**

The Bond Resolution 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 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.

### **Marketability**

The District has no understanding (other than the initial reoffering yields) with the initial purchaser of the Bonds (the “Underwriter”) regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for 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 other bonds which are more generally bought, sold or traded in the secondary market. See “SALE AND DISTRIBUTION OF THE BONDS – Prices and Marketability.”

### **Approval of the Bonds**

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General, however, does not pass upon or guarantee the security of the Bonds as an investment, nor has the Attorney General passed upon the adequacy or accuracy of the information contained in this Official Statement.

## **LEGAL MATTERS**

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including a certified copy of the approving 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 Bonds



are valid and legally binding obligations of the District. The District will also furnish the legal opinion of Coats Rose, P.C., Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are legal, valid and binding obligations of the District and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions as described below under "TAX EXEMPTION." Such opinions will express no opinions with respect to the sufficiency of the security for or the marketability of the Bonds.

### **Legal Review**

Bond Counsel has reviewed the information appearing in this Official Statement under the sections captioned: "THE BONDS" (except the subsection "--Book-Entry-Only System"), "THE DISTRICT--Authority," "TAX PROCEDURES--Authority," "LEGAL MATTERS - Legal Opinions," "LEGAL MATTERS--Legal Review," and "CONTINUING DISCLOSURE OF INFORMATION" (except the subsection "--Compliance with Prior Undertakings") solely to determine whether such information fairly summarizes matters of law with respect to the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein, other than the matters discussed immediately above.

The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

### **No-Litigation Certificate**

On the date of delivery of the Bonds to the Underwriter, the District will execute and deliver to the Underwriter a certificate to the effect that no litigation of any nature has been filed or is pending, as of that date, of which the District has notice, to restrain or enjoin the issuance or delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner question the validity of the Bonds.

### **No Material Adverse Change**

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

### **Legal Opinions**

Issuance of the Bonds is subject to (i) the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from a continuing, direct annual ad valorem tax levied without limit as to rate or amount upon all taxable property within the District, and the net revenues, if any, from the System, and (ii) the legal opinion of Bond Counsel, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law and from certain net revenues, if any, of the District's waterworks and sewer system. The legal opinion of Special Tax Counsel will further state that interest on the Bonds is excludable from gross income for federal income tax purposes under

existing law. The fees of Bond Counsel and Special Tax Counsel for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds.

## **TAX MATTERS**

### **Opinion**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law") (i) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (ii) the Bonds will not be treated as "specified private activity bonds" the interest of which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Special Tax Counsel to the District will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. In rendering its opinion, Special Tax Counsel will rely upon (a) the opinion of Coats Rose, P.C., Bond Counsel, that the Bonds are valid and binding obligations of the District payable from the proceeds of a generally-applicable ad valorem tax, (b) the District's federal tax certificate and the verification report prepared by Ritz & Associates PA and (c) covenants of the District with respect to arbitrage compliance, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure by the District to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Special Tax Counsel to the District is conditioned on compliance by the District with such requirements, and Special Tax Counsel to the District has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Special Tax Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Special Tax Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Special Tax Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

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

payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

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

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

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

### **State, Local and Foreign Taxes**

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

### **Information Reporting and Backup Withholding**

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

### **Future and Proposed Legislation**

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

### **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

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

## CONTINUING DISCLOSURE OF INFORMATION

The District, in the Bond Resolution, 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. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds subject to amendment to or repeal of same as set forth below. Under the agreement, the District will be obligated to provide certain financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

### Annual Reports

The District will provide certain financial information and operating data annually. The information to be updated includes the quantitative financial information and operating data of the general type included in this Official Statement under the headings “DISTRICT DEBT,” “TAX DATA,” “THE SYSTEM- Historical Operations of the General Operating Fund,” and the District’s audited financial statements and supplemental schedules as found in “APPENDIX A- Financial Statements of the District.” The District will update and provide this information within six (6) months after the end of each of its fiscal years ending in or after 2020. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six-month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

### Event Notices

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;



(7) modifications to rights of holders 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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the System or the sale of all or substantially all of the assets of the District, 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 trustee, if material; (15) incurrence of a financial obligation of the District or 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 obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or obligated person, any of which reflect financial difficulties.

For these purposes, any event described in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry or an order confirming a plan or reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

The term “Financial Obligation” shall mean, for purposes of the events in clauses (15) and (16), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing, or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12. The District intends the words used in clauses (15) and (16) and the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018 (the “2018 Release”) and any further written guidance provided by the SEC or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release.

#### **Availability of Information From EMMA**

Investors will be able to access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). The District has agreed in the Bond Resolution to provide the foregoing information only to the MSRB through EMMA. The information will be available to holders of Bonds only if the holders comply with the procedures of the MSRB or obtain the information through securities brokers who do so.

#### **Limitations and Amendments**

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to 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 of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the District, if but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with SEC Rule 15c2-12 (the “Rule”), taking into account any

amendments or interpretations of the Rule to the date of such amendment, as well as any changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any qualified professional unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. 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 under "Annual Reports," an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating so provided. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgement that such provisions of the Rule are invalid, and the District also may amend its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

### **Compliance with Prior Undertakings**

During the last five (5) years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

## **VERIFICATION OF ACCURACY OF MATHEMATICAL CALCULATIONS**

The accuracy of the mathematical computations with respect to the adequacy of the funds available to provide for the payment of the Refunded Bonds will be verified by Ritz & Associates PA, a firm of independent certified public accountants. These computations will be based upon information and assumptions supplied by the Underwriter. Ritz & Associates PA has restricted its procedures to recalculating the computations provided by the Underwriter and has not evaluated or examined the assumptions or information used in the computations.

## **PREPARATION OF OFFICIAL STATEMENT**

### **General**

The information contained in this Official Statement has been obtained primarily from the District's records, the District's Engineer, the Appraisal District, the District's Tax Assessor/Collector and other sources believed to be reliable. The District, however, makes no representation as to the accuracy or completeness of the information derived from such sources. The summaries of the statutes, resolutions, orders, agreements and engineering and other related reports 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.

### **Consultants**

The information contained in this Official Statement relating to the physical characteristics of the District and engineering matters and, in particular, that engineering information included in the sections captioned "THE DISTRICT" and "THE SYSTEM" has been provided by the District's Engineer and has been included herein in reliance upon the authority of such firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning historical breakdown of District valuations, principal taxpayers and collection rates contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" has been provided by the Appraisal District and the District's Tax Assessor/Collector and has been included herein in reliance upon their authority as experts in the field of tax assessing and collecting.

The information contained in this Official Statement in the section captioned “THE DISTRICT–The Developer” has been provided by the developer named in that section.

The financial statements contained in “APPENDIX A–Financial Statements of the District” have been included in reliance upon the accompanying report of the District’s Auditor.

### **Updating the Official Statement**

If, subsequent to the date of the Official Statement, the District learns, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, 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 (but not more than 90 days after the date the District delivers the Bonds to the Underwriter) until all of the Bonds have been sold to ultimate customers.

### **Certification of Official Statement**

The District, acting through the Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements and descriptions pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the Board has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading; however, the Board can give no assurance as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement is duly certified and approved by the Board of Directors of Kleinwood Municipal Utility District as of the date specified on the first page hereof.

/s/ David C. Guerrero  
President, Board of Directors  
Kleinwood Municipal Utility District

ATTEST:  
/s/ Joseph T. Fratangelo  
Secretary/Treasurer, Board of Directors  
Kleinwood Municipal Utility District

**APPENDIX A—Financial Statements of the District**

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MARCH 31, 2019**

**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
Certified Public Accountants

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MARCH 31, 2019**



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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Kleinwood Municipal Utility District  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Kleinwood Municipal Utility District (the "District"), as of and for the year ended March 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.

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

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

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



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

July 25, 2019

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2019**

Management's discussion and analysis of Kleinwood Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the year ended March 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 like that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

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

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

**FUND FINANCIAL STATEMENTS**

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two 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.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 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, assets and deferred outflows exceeded liabilities by \$6,232,936 as of March 31, 2019. A portion of the District's net position reflects its net investment in capital assets (land, buildings and equipment, as well as the water and wastewater facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:



**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2019**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 6,850,545	\$ 7,650,317	\$ (799,772)
Capital Assets (Net of Accumulated Depreciation)	10,758,538	9,909,486	849,052
Total Assets	\$ 17,609,083	\$ 17,559,803	\$ 49,280
Deferred Outflows of Resources	\$ 102,218	\$ 110,981	\$ (8,763)
Bonds Payable	\$ 10,604,478	\$ 11,367,616	\$ 763,138
Other Liabilities	873,887	764,346	(109,541)
Total Liabilities	\$ 11,478,365	\$ 12,131,962	\$ 653,597
Net Position:			
Net Investment in Capital Assets	\$ (153,367)	\$ (1,713,638)	\$ 1,560,271
Restricted	1,871,318	1,922,422	(51,104)
Unrestricted	4,514,985	5,330,038	(815,053)
Total Net Position	\$ 6,232,936	\$ 5,538,822	\$ 694,114

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

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,349,521	\$ 1,442,729	\$ (93,208)
Charges for Services	1,456,008	1,525,249	(69,241)
Other Revenues	497,555	426,088	71,467
Total Revenues	\$ 3,303,084	\$ 3,394,066	\$ (90,982)
Expenses for Services	2,608,970	2,598,085	(10,885)
Change in Net Position	\$ 694,114	\$ 795,981	\$ (101,867)
Net Position, Beginning of Year	5,538,822	4,742,841	795,981
Net Position, End of Year	\$ 6,232,936	\$ 5,538,822	\$ 694,114

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2019**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of March 31, 2019, was \$5,201,648, a decrease of \$842,755 from the prior fiscal year.

The General Fund fund balance decreased by \$772,724, primarily due to capital outlay.

The Debt Service Fund fund balance decreased by \$70,031, primarily due to the structure of the District's outstanding debt.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$355,895 more than budgeted revenues primarily due to higher than expected revenues in most categories, with the exception of water and wastewater service revenues. Actual expenditures were \$482,781 less than budgeted expenditures primarily due to lower than expected costs in most categories with the exception of repairs and maintenance.

**CAPITAL ASSETS**

Capital assets as of March 31, 2019, total \$10,758,538 (net of accumulated depreciation) and also include land, buildings and equipment, and the water and wastewater facilities. Significant capital outlay during the current fiscal year consisted of construction and engineering costs for the Water Plant No. 1 generator replacement and construction of a walkway around the generator. Construction in progress includes engineering and construction costs for the Water Plant No. 2 ground storage tank addition and the District's share of engineering costs related to electrical improvements and reclaimed water facilities at the joint wastewater treatment plant.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,526,486	\$ 1,526,486	\$
Construction in Progress	1,177,147	217,538	959,609
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Equipment	219,968	232,002	(12,034)
Water System	4,150,373	4,105,105	45,268
Wastewater System	3,684,564	3,828,355	(143,791)
Total Net Capital Assets	<u>\$ 10,758,538</u>	<u>\$ 9,909,486</u>	<u>\$ 849,052</u>

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2019**

**LONG-TERM DEBT ACTIVITY**

As of March 31, 2019, the District had total bonds payable of \$10,369,992. The changes in bonds payable during the year ended March 31, 2019, are summarized as follows:

Bond Debt Payable, April 1, 2018	\$ 11,109,992
Less: Bond Principal Paid	<u>740,000</u>
Bond Debt Payable, March 31, 2019	<u>\$ 10,369,992</u>

The District carries an underlying rating of "A2". The District's Series 2011 and 2012 bonds carry insured ratings of "A2" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation. The District's Series 2014 and 2015 bonds carry insured ratings of "AA" by virtue of bond insurance issued by Build America Mutual Assurance Company. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The above ratings reflect any rating changes during the year ended March 31, 2019.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kleinwood Municipal Utility District, c/o Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, TX 77046.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>		
Cash	\$ 65,574	\$ 144,495
Investments	3,387,442	1,749,613
Receivables:		
Property Taxes	17,542	49,270
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$750)	103,313	
Sales Tax Receipts	74,573	
Due from Other Funds	5,615	
Water Authority Capital Contributions		
Chloramination Credit Receivable		
Prepaid Costs	70,692	
Operating Advance	17,473	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<u>\$ 3,742,224</u>	<u>\$ 1,943,378</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refunding Bonds	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 3,742,224</u>	<u>\$ 1,943,378</u>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 210,069	\$	\$ 210,069
5,137,055		5,137,055
66,812		66,812
	11,457	11,457
103,313		103,313
74,573		74,573
5,615	(5,615)	
	894,849	894,849
	264,252	264,252
70,692		70,692
17,473		17,473
	1,526,486	1,526,486
	1,177,147	1,177,147
	8,054,905	8,054,905
<u>\$ 5,685,602</u>	<u>\$ 11,923,481</u>	<u>\$ 17,609,083</u>
 \$ - 0 -	 \$ 102,218	 \$ 102,218
<u><u>\$ 5,685,602</u></u>	<u><u>\$ 12,025,699</u></u>	<u><u>\$ 17,711,301</u></u>

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



**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 292,584	\$
Accrued Interest Payable		
Due to Other Funds		5,615
Due to Taxpayers		25,187
Security Deposits	93,756	
Accrued Interest on Compound Interest Bonds		
Long-term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<u>\$ 386,340</u>	<u>\$ 30,802</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	<u>\$ 17,542</u>	<u>\$ 49,270</u>
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 70,692	\$
Operating Advance	17,473	
Restricted for Debt Service		1,863,306
Committed for Construction	96,463	
Assigned to 2020 Budget	296,537	
Unassigned	<u>2,857,177</u>	
<b>TOTAL FUND BALANCES</b>	<u>\$ 3,338,342</u>	<u>\$ 1,863,306</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 3,742,224</u>	<u>\$ 1,943,378</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Total	Adjustments	Statement of Net Position
\$ 292,584	\$	\$ 292,584
	52,715	52,715
5,615	(5,615)	
25,187		25,187
93,756		93,756
	409,645	409,645
	765,000	765,000
	9,839,478	9,839,478
<u>\$ 417,142</u>	<u>\$ 11,061,223</u>	<u>\$ 11,478,365</u>
 <u>\$ 66,812</u>	 <u>\$ (66,812)</u>	 <u>\$ - 0 -</u>
 \$ 70,692	 \$ (70,692)	 \$
17,473	(17,473)	
1,863,306	(1,863,306)	
96,463	(96,463)	
296,537	(296,537)	
2,857,177	(2,857,177)	
<u>\$ 5,201,648</u>	<u>\$ (5,201,648)</u>	<u>\$ - 0 -</u>
 <u>\$ 5,685,602</u>		
	\$ (153,367)	\$ (153,367)
	1,871,318	1,871,318
	4,514,985	4,514,985
	<u>\$ 6,232,936</u>	<u>\$ 6,232,936</u>

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

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
MARCH 31, 2019**

Total Fund Balances - Governmental Funds	\$	5,201,648
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Long-term receivables are recorded in the Statement of Net Position.		1,159,101
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		10,758,538
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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 old debt or the life of the new debt, whichever is shorter.		102,218
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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.		78,269
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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:

Accrued Interest Payable	\$ (462,360)	
Bonds Payable	<u>(10,604,478)</u>	<u>(11,066,838)</u>
Total Net Position - Governmental Activities		<u><u>\$ 6,232,936</u></u>

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

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**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>REVENUES</b>		
Property Taxes	\$ 317,628	\$ 1,012,472
Water Service	397,742	
Wastewater Service	213,667	
Water Authority Fees	772,069	
Penalty and Interest	15,301	7,887
Tap Connection and Inspection Fees	47,300	
Water Authority Credits	110,246	
Sales Tax Revenues	305,340	
Miscellaneous Revenues	<u>103,802</u>	<u>25,952</u>
<b>TOTAL REVENUES</b>	<u>\$ 2,283,095</u>	<u>\$ 1,046,311</u>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 206,966	\$ 4,875
Contracted Services	228,324	39,234
Purchased Surface Water	625,945	
Purchased Wastewater Service	125,891	
Utilities	60,451	
Water Authority Pumpage Fees	216,012	
Repairs and Maintenance	320,250	
Depreciation		
Other	140,927	7,183
Capital Outlay	1,131,053	
Debt Service:		
Bond Principal		740,000
Bond Interest		<u>325,050</u>
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 3,055,819</u>	<u>\$ 1,116,342</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ (772,724)</u>	<u>\$ (70,031)</u>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - APRIL 1, 2018</b>	<u>4,111,066</u>	<u>1,933,337</u>
<b>FUND BALANCES/NET POSITION - MARCH 31, 2019</b>	<u><u>\$ 3,338,342</u></u>	<u><u>\$ 1,863,306</u></u>

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



Total	Adjustments	Statement of Activities
\$ 1,330,100	\$ 19,421	\$ 1,349,521
397,742		397,742
213,667		213,667
772,069		772,069
23,188	2,042	25,230
47,300		47,300
110,246	(47,785)	62,461
305,340		305,340
129,754		129,754
<u>\$ 3,329,406</u>	<u>\$ (26,322)</u>	<u>\$ 3,303,084</u>
\$ 211,841	\$	\$ 211,841
267,558		267,558
625,945		625,945
125,891		125,891
60,451		60,451
216,012		216,012
320,250		320,250
	282,001	282,001
148,110		148,110
1,131,053	(1,131,053)	
740,000	(740,000)	
325,050	25,861	350,911
<u>\$ 4,172,161</u>	<u>\$ (1,563,191)</u>	<u>\$ 2,608,970</u>
\$ (842,755)	\$ 842,755	\$
	694,114	694,114
6,044,403	(505,581)	5,538,822
<u>\$ 5,201,648</u>	<u>\$ 1,031,288</u>	<u>\$ 6,232,936</u>

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

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2019**

Net Change in Fund Balances - Governmental Funds	\$ (842,755)
--	--------------

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.	19,421
--	--------

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.	2,042
---	-------

Governmental funds report repayment of capital contributions as revenues in the period received. However, in the Statement of Net Position, repayments reduce long-term receivables.	(47,785)
--	----------

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.	(282,001)
--	-----------

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.	1,131,053
---	-----------

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.	740,000
---	---------

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.	(25,861)
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Change in Net Position - Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ 694,114</div>
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The accompanying notes to the financial  
statements are an integral part of this report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 1. CREATION OF DISTRICT**

Kleinwood Municipal Utility District, Harris County, Texas, was created by order of the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the "Commission"), effective May 3, 1972. The Board of Directors held its first meeting on February 2, 1973, and the first bonds were sold on November 3, 1975. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units. The District has entered into an agreement for wastewater treatment with Cy-Champ Public Utility District, Harris County Water Control & Improvement District No. 114, Klein Independent School District, Cypress Forest Public Utility District, Louetta North Public Utility District, and Champions Municipal Utility District. Oversight responsibility of the wastewater treatment plant is by the Kleinwood Joint Powers Board. Additional disclosure concerning this joint venture is provided in Note 10.

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:

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 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 of the government-wide Statement of Activities.

Fund Financial Statements

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

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental Funds

The District has two 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.

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 period 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 use. 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 March 31, 2019, the Debt Service Fund owed the General Fund \$5,615 comprised of \$2,115 for maintenance tax collections and \$3,500 for Series 2015 refunding bond issuance costs.

Capital Assets

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



**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets (Continued)

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:

	<u>Years</u>
Buildings	40
Water System	10-45
Wastewater System	10-45
All Other Equipment	5-20

Budgeting

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

Pensions

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

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.

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:

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus (Continued)

*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 committed \$96,463 of its General Fund fund balance for the remaining costs of the Water Plant No. 2 ground storage tank no. 2 project and recoating tanks at the water plants.

*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. As of March 31, 2019, \$296,537 has been assigned to the 2020 budget.

*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.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 3. LONG-TERM DEBT**

	Refunding Series 2011	Refunding Series 2014	
		Current Interest	Compound Interest
Amount Outstanding – March 31, 2019	\$ 1,050,000	\$ 2,220,000	\$ 214,996
Interest Rates	3.00% - 4.00%	2.00% - 3.50%	4.10%
Maturity Dates – Serially Beginning/Ending	August 1, 2019/2022	August 1, 2019/2028	August 1, 2029
Interest Payment Dates	August 1/ February 1	August 1/ February 1	At Maturity
Callable Dates	August 1, 2018*	August 1, 2022*	N/A*

	Refunding Series 2012	Refunding Series 2015	
		Current Interest	Compound Interest
Amount Outstanding – March 31, 2019	\$ 3,685,000	\$ 2,690,000	\$ 509,996
Interest Rates	2.00% - 4.00%	2.00% - 3.00%	3.75%
Maturity Dates – Serially Beginning/Ending	August 1, 2019/2029	August 1, 2019/2029	August 1, 2030
Interest Payment Dates	August 1/ February 1	August 1/ February 1	At Maturity
Callable Dates	August 1, 2020*	August 1, 2023*	N/A*

\* Or any date thereafter at a price of par plus unpaid accrued interest to the date fixed for redemption. For the Series 2011 bond issue, the bonds maturing August 1, 2022, are term bonds and subject to mandatory redemption beginning August 1, 2021. For the Series 2012 bond issue, the bonds maturing August 1, 2014, 2016, 2018, 2026, and 2028, are term bonds and are subject to mandatory redemption beginning August 1, 2012, 2015, 2017, 2025, and 2027, respectively. For the Series 2014 bond issue, the bonds maturing August 1, 2024, are term bonds and are subject to mandatory redemption beginning August 1, 2023. The par value of the Series 2014 Refunding compound interest bonds is \$214,996 and the maturity value is \$555,000. At March 31, 2019, the accreted value of these bonds is \$363,487, which includes accrued interest of \$148,491. Interest on these bonds will be paid at maturity. The par value of the Series 2015 Refunding Compound Interest bonds is \$509,996 and the maturity value is \$1,180,000. At March 31, 2019, the accreted value of these bonds is \$771,151, which includes accrued interest of \$261,155. Interest on these bonds will be paid at maturity.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 3. LONG-TERM DEBT (Continued)**

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

	April 1, 2018	Additions	Retirements	March 31, 2019
Bonds Payable	\$ 11,109,992	\$	\$ 740,000	\$ 10,369,992
Unamortized Premiums	257,624		23,138	234,486
Bonds Payable, Net	<u>\$ 11,367,616</u>	<u>\$ -0-</u>	<u>\$ 763,138</u>	<u>\$ 10,604,478</u>
		Amount Due Within One Year		\$ 765,000
		Amount Due After One Year		9,839,478
		Bonds Payable, Net		<u>\$ 10,604,478</u>

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

Fiscal Year	Principal	Interest	Total
2020	\$ 765,000	\$ 305,737	\$ 1,070,737
2021	785,000	284,174	1,069,174
2022	805,000	262,363	1,067,363
2023	830,000	236,787	1,066,787
2024	895,000	205,857	1,100,857
2025-2029	5,005,000	522,426	5,527,426
2030-2031	1,284,992	1,019,458	2,304,450
	<u>\$ 10,369,992</u>	<u>\$ 2,836,802</u>	<u>\$ 13,206,794</u>

As of March 31, 2019, the District had authorized but unissued bonds in the amount of \$19,355,000 for facilities and \$8,930,000 for refunding purposes. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount and are further payable from net operating revenues.

During the year ended March 31, 2019, the District levied an ad valorem debt service tax rate of \$0.290 per \$100 of assessed valuation, which resulted in a tax levy of \$1,053,728 on the adjusted taxable valuation of \$363,355,858 for the 2018 tax year. The bond orders 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. The District's tax calendar is as follows:

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 3. LONG-TERM DEBT (Continued)**

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 ORDER AND LEGAL REQUIREMENTS**

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$210,069 and the bank balance was \$413,199. The District was not exposed to custodial credit risk at year-end. The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position for the year ended March 31, 2019, as listed below:

	<u>Cash</u>
GENERAL FUND	\$ 65,574
DEBT SERVICE FUND	<u>144,495</u>
TOTAL DEPOSITS	<u><u>\$ 210,069</u></u>

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

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 State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measure all of its portfolio assets at amortized costs. The District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool. The District also invests in the Texas Short Term Asset Reserve Program ("TexSTAR"), an external public funds investment pool that is not SEC-registered. J. P. Morgan Investment Management Inc. provides investment management and Hilltop Securities Inc., provides participant services and marketing under an agreement with the TexSTAR Board of Directors. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investors Services Co. Investments held by TexSTAR are marked to market daily. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from TexSTAR.



**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

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

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 1,225,092	\$ 1,225,092
TexSTAR	2,162,350	2,162,350
<u>DEBT SERVICE FUND</u>		
TexPool	1,217,644	1,217,644
TexSTAR	531,969	531,969
<b>TOTAL INVESTMENTS</b>	<u><b>\$ 5,137,055</b></u>	<u><b>\$ 5,137,055</b></u>

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and TexSTAR to have maturities of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District, unless there have been significant changes in values.

Restrictions

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

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 6. CAPITAL ASSETS**

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

	April 1, 2018	Increases	Decreases	March 31, 2019
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 1,526,486	\$	\$	\$ 1,526,486
Construction in Progress	<u>217,538</u>	<u>1,131,053</u>	<u>171,444</u>	<u>1,177,147</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 1,744,024</u>	<u>\$ 1,131,053</u>	<u>\$ 171,444</u>	<u>\$ 2,703,633</u>
<b>Capital Assets Subject to Depreciation</b>				
Buildings and Equipment	\$ 464,605	\$	\$	\$ 464,605
Water System	6,031,851	171,444		6,203,295
Wastewater System	<u>5,311,137</u>	<u></u>	<u></u>	<u>5,311,137</u>
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 11,807,593</u>	<u>\$ 171,444</u>	<u>\$ - 0 -</u>	<u>\$ 11,979,037</u>
<b>Accumulated Depreciation</b>				
Building and Equipment	\$ 232,603	\$ 12,034	\$	\$ 244,637
Water System	1,926,746	126,176		2,052,922
Wastewater System	<u>1,482,782</u>	<u>143,791</u>	<u></u>	<u>1,626,573</u>
<b>Total Accumulated Depreciation</b>	<u>\$ 3,642,131</u>	<u>\$ 282,001</u>	<u>\$ - 0 -</u>	<u>\$ 3,924,132</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 8,165,462</u>	<u>\$ (110,557)</u>	<u>\$ - 0 -</u>	<u>\$ 8,054,905</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 9,909,486</u>	<u>\$ 1,020,496</u>	<u>\$ 171,444</u>	<u>\$ 10,758,538</u>

**NOTE 7. MAINTENANCE TAX**

On December 4, 1974, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.25 per \$100 of assessed valuation. During the year ended March 31, 2019, the District levied an ad valorem maintenance tax rate of \$0.105 per \$100 of assessed valuation, which resulted in a tax levy of \$381,522 on the adjusted taxable valuation of \$363,355,858 for the 2018 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

**NOTE 8. 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's purpose is to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. During the current fiscal year, the Authority charged \$3.40 per

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 8. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**  
(Continued)

1,000 gallons of water pumped from each well and charged a surface water fee of \$3.85 per 1,000 gallons. During the current fiscal year, the District incurred costs totaling \$216,012 for pumpage fees and \$625,945 for purchased surface water.

Capital Contribution Receivable

The District entered into a Capital Contribution Contract with the Authority in which the District paid \$1,213,095 to the Authority. During the current fiscal year, the District received credits of \$88,406 including a return of principal of \$41,990. Future repayments of capital contributions are as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 44,163	\$ 44,243	\$ 88,406
2021	46,450	41,956	88,406
2022	48,854	39,552	88,406
2023	51,383	37,023	88,406
2024	54,043	34,363	88,406
2025-2029	315,186	126,844	442,030
2030-2034	334,770	37,615	372,385
	<u>\$ 894,849</u>	<u>\$ 361,596</u>	<u>\$ 1,256,445</u>

Chloramine Conversion Reimbursement

The Authority required the District to convert its water systems to chloramine disinfection for as long as it is connected to the Authority's system. The District has completed its chloramine conversion system which included reimbursable costs of \$300,627. The Authority calculated the reimbursement at 6% interest over a 30-year period. The District began receiving chloramine conversion credits on its March 2011 Authority billing. Total credits earned in the current fiscal year were \$21,840. Of this amount, \$5,795 was a return of principal with the balance being applicable to interest. The following is a schedule of the remaining chloramine conversion credits to be received under the terms of the agreement.

Fiscal Year	Principal	Interest	Total
2020	\$ 6,153	\$ 15,688	\$ 21,841
2021	6,532	15,308	21,840
2022	6,935	14,905	21,840
2023	7,363	14,478	21,841
2024	7,816	14,024	21,840
2025-2029	46,201	63,001	109,202
2030-2034	61,214	47,986	109,200
2035-2039	82,045	27,156	109,201
2040-2041	39,993	3,266	43,259
	<u>\$ 264,252</u>	<u>\$ 215,812</u>	<u>\$ 480,064</u>

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 9. STRATEGIC PARTNERSHIP AGREEMENT**

Effective December 1, 2010, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas. The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City shall annex a tract of land defined as the “Subject Tract” for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Subject Tract within the boundaries of the District.

The City imposes a sale and use tax within the boundaries of the Subject Tract at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City pays the District an amount equal to one-half of all sales and use tax revenues generated within the boundaries of the Subject Tract. During the year ended March 31, 2019, the District recorded revenues of \$305,340 from the City of Houston including \$74,573 which was receivable at year-end.

**NOTE 10. KLEINWOOD JOINT POWERS BOARD**

The District is a participant in the Kleinwood Regional Wastewater Treatment Plant (“Plant”) which provides wastewater treatment for the District and the following participants: Cy-Champ Public Utility District (“Cy-Champ”), Harris County Water Control & Improvement District No.114, Klein Independent School District, Cypress Forest Public Utility District (“Cypress Forest”), Louetta North Public Utility District and Champions Municipal Utility District (“Champions”). The agreement creating the Kleinwood Joint Powers Board was effective April 9, 1992, and subsequently amended on June 1, 1993, September 8, 1997, July 25, 2005, September 9, 2013, and March 16, 2017. The fifth amendment provided for the purchase of an ownership interest in the Plant by Champions from Cy-Champ. Unless terminated earlier by mutual agreement of all the participants, the agreement will continue in force and effect until April 9, 2047.

The operating expenses of the Plant are allocated based on each participant’s number of connections. Capital costs are paid by each participant based on their ownership interest in the Plant. The District’s capacity ownership is 15%. Operating expenses of \$125,891 and capital project costs of \$23,512 were incurred by the District for the year ended March 31, 2019. The following summary financial data of the Plant is presented for the year ended May 31, 2018. Additional information can be obtained by contacting the Board’s attorneys, Young & Brooks.

Total Assets	\$ 481,972
Total Liabilities	<u>365,485</u>
Total Fund Balance	<u>\$ 116,487</u>
Total Revenues	\$ 1,344,016
Total Expenditures	<u>1,344,016</u>
Net Change in Fund Balance	\$ -0-
Fund Balance – June 1, 2017	<u>116,487</u>
Fund Balance – May 31, 2018	<u>\$ 116,487</u>

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 10. KLEINWOOD JOINT POWERS BOARD (Continued)**

On November 1, 2017, the participants entered into an agreement to construct facilities to further treat the wastewater effluent produced by the Plant to qualify for Type I Reclaimed Water Use per Commission rules.

Champions and Cypress Forest (“Providers”) intend to purchase the reclaimed water from the Board to provide to users within their districts. The Providers will construct and operate, at their sole cost and expense, facilities necessary to enable receipt of reclaimed water from the Board. In addition to all other costs payable as participants in the Plant related to this agreement, the Providers will make Capital Recovery payments equal to 100% of the project costs which will be payable over a period of 66 consecutive months. The Board will deposit all Capital Recovery payments to the operating account of the Plant for credit among the participants based on each participant’s pro-rata share of this project.

**NOTE 11. WATER SUPPLY AND WASTE DISPOSAL AGREEMENTS**

On December 9, 1982, the District entered into a contract with Cypress Forest Public Utility District (Cypress Forest) to provide water and sanitary sewer services to an 8-acre tract within the District’s boundaries. The term of the contract is 40 years and may be renewed on a year-to-year basis after that date. Any party may terminate the contract by giving a one-year written notice of termination. The District pays Cypress Forest an amount equal to 70% of the ad valorem taxes collected on the tract by March 1 of each year during the contract.

On March 18, 1987, the District entered into a contract with Harris County Municipal Utility District No. 24 (District No. 24) to provide water and sanitary sewer services to a 13-acre tract within the District’s boundaries. The term of the contract is 40 years and may be renewed on a year-to-year basis after that date. Any party may terminate the contract by giving one-year written notice of termination. The District pays District No. 24 an amount equal to 70% of the ad valorem taxes collected on the tract by March 1 of each year during the contract.

On April 16, 1989, the District entered into an emergency water supply contract with Cypress-Klein Utility District. This contract was amended on November 14, 2016. The contract provides for emergency water to be provided at a cost per 1,000 gallons of water of \$0.50 plus the surface water fee of the North Harris County Regional Water Authority for a period not to exceed 30 days. The contract is in effect until December 31, 2029 and will automatically renew each January 1 unless otherwise terminated by either party.

On October 7, 1976, the District entered into an emergency water supply contract with Harris County Water Control and Improvement District No. 114. This contract was amended on December 12, 2016. The contract provides for emergency water received to be repaid in kind or repaid at the rate paid by the supplying district per 1,000 gallons to purchase surface water plus an additional \$0.25 per 1,000 gallons of water taken.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 12. 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 years.



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**KLEINWOOD MUNICIPAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**MARCH 31, 2019**

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 278,000	\$ 317,628	\$ 39,628
Water Service	425,000	397,742	(27,258)
Wastewater Service	220,000	213,667	(6,333)
Water Authority Fees	630,000	772,069	142,069
Penalty and Interest	10,000	15,301	5,301
Tap Connection and Inspection Fees	20,000	47,300	27,300
Water Authority Credits		110,246	110,246
Sales Tax Revenues	300,000	305,340	5,340
Miscellaneous Revenues	44,200	103,802	59,602
<b>TOTAL REVENUES</b>	<u>\$ 1,927,200</u>	<u>\$ 2,283,095</u>	<u>\$ 355,895</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 315,000	\$ 206,966	\$ 108,034
Contracted Services	238,000	228,324	9,676
Purchased Surface Water/Pumpage Fees	890,000	841,957	48,043
Purchased Wastewater Service	190,000	125,891	64,109
Utilities	82,500	60,451	22,049
Repairs and Maintenance	241,900	320,250	(78,350)
Other	181,200	140,927	40,273
Capital Outlay	1,400,000	1,131,053	268,947
<b>TOTAL EXPENDITURES</b>	<u>\$ 3,538,600</u>	<u>\$ 3,055,819</u>	<u>\$ 482,781</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (1,611,400)	\$ (772,724)	\$ 838,676
<b>FUND BALANCE - APRIL 1, 2018</b>	<u>4,111,066</u>	<u>4,111,066</u>	<u></u>
<b>FUND BALANCE - MARCH 31, 2019</b>	<u>\$ 2,499,666</u>	<u>\$ 3,338,342</u>	<u>\$ 838,676</u>

See accompanying independent auditor's report.

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**KLEINWOOD MUNICIPAL UTILITY DISTRICT**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**

**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**MARCH 31, 2019**





**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED MARCH 31, 2019**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<b>Meter Size</b>	<b>Total Connections</b>	<b>Active Connections</b>	<b>ESFC Factor</b>	<b>Active ESFCs</b>
Unmetered			x 1.0	
≤¾"	590	587	x 1.0	587
1"	216	214	x 2.5	535
1½"	28	28	x 5.0	140
2"	46	45	x 8.0	360
3"	4	4	x 15.0	60
4"	2	2	x 25.0	50
6"	4	4	x 50.0	200
8"			x 80.0	
10"			x 115.0	
Total Water Connections	890	884		1,932
Total Wastewater Connections	839	834	x 1.0	834

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

Gallons pumped into system:	59,465,000	Water Accountability Ratio: 91.8% (Gallons billed/Gallons pumped and purchased)
Gallons billed to customers:	206,089,000	
Gallons purchased:	164,955,000	From: <u>North Harris County Regional Water Authority</u>

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED MARCH 31, 2019**

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

Does the District have Debt Service standby fees? Yes ☐ No ☒

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED MARCH 31, 2019**

PROFESSIONAL FEES:	
Auditing	\$ 15,300
Engineering	89,874
Legal	<u>101,792</u>
TOTAL PROFESSIONAL FEES	<u>\$ 206,966</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Surface Water	\$ 625,945
Purchased Wastewater Service	<u>125,891</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 751,836</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 18,300
Operations and Billing	66,894
Sales Tax Consultant	<u>4,800</u>
TOTAL CONTRACTED SERVICES	<u>\$ 89,994</u>
UTILITIES:	
Electricity	\$ 50,705
Telephone	<u>9,746</u>
TOTAL UTILITIES	<u>\$ 60,451</u>
REPAIRS AND MAINTENANCE	<u>\$ 320,250</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 14,221
Insurance	33,902
Legal Notices	2,110
Office Supplies and Postage	17,972
Other	<u>15,324</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 83,529</u>
CAPITAL OUTLAY	<u>\$ 1,131,053</u>
SECURITY	<u>\$ 138,330</u>
OTHER EXPENDITURES:	
Chemicals	\$ 9,437
Laboratory Fees	17,533
Permit Fees	2,166
Inspection and Reconnection Fees	25,221
Water Authority Pumpage Fees	216,012
Regulatory Assessment	<u>3,041</u>
TOTAL OTHER EXPENDITURES	<u>\$ 273,410</u>
TOTAL EXPENDITURES	<u>\$ 3,055,819</u>

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**INVESTMENTS**  
**MARCH 31, 2019**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 1,225,092	\$
TexSTAR	XXXX1110	Varies	Daily	<u>2,162,350</u>	<u>                    </u>
TOTAL GENERAL FUND				<u>\$ 3,387,442</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 1,217,644	\$
TexSTAR	XXXX0230	Varies	Daily	<u>531,969</u>	<u>                    </u>
TOTAL DEBT SERVICE FUND				<u>\$ 1,749,613</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u><u>\$ 5,137,055</u></u>	<u><u>\$ - 0 -</u></u>

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	Maintenance Taxes		Debt Service Taxes		
TAXES RECEIVABLE -					
APRIL 1, 2018	\$	12,086	\$	35,305	
Adjustments to Beginning Balance		<u>(9,405)</u>	\$	<u>(27,291)</u>	
		\$	2,681	\$	8,014
Original 2018 Tax Levy	\$	350,149	\$	967,079	
Adjustment to 2018 Tax Levy		<u>31,373</u>		<u>86,649</u>	<u>1,053,728</u>
TOTAL TO BE ACCOUNTED FOR		\$	384,203	\$	1,061,742
TAX COLLECTIONS:					
Prior Years	\$	(3,641)	\$	(10,266)	
Current Year		<u>370,302</u>		<u>1,022,738</u>	<u>1,012,472</u>
TAXES RECEIVABLE - MARCH 31, 2019		\$	<u>17,542</u>	\$	<u>49,270</u>
TAXES RECEIVABLE BY YEAR:					
2018		\$	11,220	\$	30,990
2017			2,305		6,800
2016			1,476		4,217
2015			598		1,900
2014			528		1,611
2013			348		1,128
2012			209		626
2011			114		290
2010			120		299
2009			133		313
2008			159		374
2007			161		358
2006			<u>171</u>		<u>364</u>
TOTAL		\$	<u>17,542</u>	\$	<u>49,270</u>

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED MARCH 31, 2019**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 111,728,578	\$ 106,455,267	\$ 95,343,543	\$ 95,522,665
Improvements	347,759,714	350,673,314	346,382,544	327,826,034
Personal Property	19,914,875	22,080,305	21,362,605	20,377,403
Exemptions	<u>(116,047,309)</u>	<u>(115,351,841)</u>	<u>(105,603,241)</u>	<u>(103,728,495)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 363,355,858</u>	<u>\$ 363,857,045</u>	<u>\$ 357,485,451</u>	<u>\$ 339,997,607</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.290	\$ 0.295	\$ 0.300	\$ 0.327
Maintenance	<u>0.105</u>	<u>0.100</u>	<u>0.105</u>	<u>0.103</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.395</u>	<u>\$ 0.395</u>	<u>\$ 0.405</u>	<u>\$ 0.430</u>
ADJUSTED TAX LEVY*	<u>\$ 1,435,250</u>	<u>\$ 1,437,230</u>	<u>\$ 1,447,810</u>	<u>\$ 1,461,984</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>97.06 %</u>	<u>99.37 %</u>	<u>99.61 %</u>	<u>99.83 %</u>

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

Maintenance Tax – Maximum tax rate of \$0.25 per \$100 of assessed valuation approved by voters on December 4, 1974.

See accompanying independent auditor's report.



**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

REFUNDING SERIES - 2011			
Due During Fiscal Years Ending March 31	Principal Due August 1	Interest Due August 1/ February 1	Total
2020	\$ 250,000	\$ 33,475	\$ 283,475
2021	260,000	25,662	285,662
2022	265,000	16,300	281,300
2023	275,000	5,500	280,500
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
	<u>\$ 1,050,000</u>	<u>\$ 80,937</u>	<u>\$ 1,130,937</u>

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

REFUNDING SERIES - 2012			
Due During Fiscal Years Ending March 31	Principal Due August 1	Interest Due August 1/ February 1	Total
2020	\$ 330,000	\$ 124,450	\$ 454,450
2021	335,000	114,475	449,475
2022	360,000	105,850	465,850
2023	360,000	95,050	455,050
2024	635,000	75,150	710,150
2025	665,000	49,150	714,150
2026	185,000	32,150	217,150
2027	190,000	24,650	214,650
2028	205,000	17,775	222,775
2029	210,000	11,550	221,550
2030	210,000	4,200	214,200
2031			
	<u>\$ 3,685,000</u>	<u>\$ 654,450</u>	<u>\$ 4,339,450</u>

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

REFUNDING SERIES - 2014			
Due During Fiscal Years Ending March 31	Principal Due August 1	Interest Due August 1/ February 1	Total
2020	\$ 20,000	\$ 76,725	\$ 96,725
2021	20,000	76,300	96,300
2022	20,000	75,775	95,775
2023	25,000	75,100	100,100
2024	85,000	73,238	158,238
2025	80,000	70,350	150,350
2026	460,000	60,900	520,900
2027	480,000	44,450	524,450
2028	505,000	27,213	532,213
2029	525,000	9,188	534,188
2030	214,996	340,004	555,000
2031			
	<u>\$ 2,434,996</u>	<u>\$ 929,243</u>	<u>\$ 3,364,239</u>

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

REFUNDING SERIES - 2015			
Due During Fiscal Years Ending March 31	Principal Due August 1	Interest Due August 1/ February 1	Total
2020	\$ 165,000	\$ 71,087	\$ 236,087
2021	170,000	67,737	237,737
2022	160,000	64,438	224,438
2023	170,000	61,137	231,137
2024	175,000	57,469	232,469
2025	180,000	52,800	232,800
2026	320,000	45,300	365,300
2027	325,000	35,625	360,625
2028	335,000	25,725	360,725
2029	340,000	15,600	355,600
2030	350,000	5,250	355,250
2031	509,996	670,004	1,180,000
	<u>\$ 3,199,996</u>	<u>\$ 1,172,172</u>	<u>\$ 4,372,168</u>

See accompanying independent auditor's report.

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**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 765,000	\$ 305,737	\$ 1,070,737
2021	785,000	284,174	1,069,174
2022	805,000	262,363	1,067,363
2023	830,000	236,787	1,066,787
2024	895,000	205,857	1,100,857
2025	925,000	172,300	1,097,300
2026	965,000	138,350	1,103,350
2027	995,000	104,725	1,099,725
2028	1,045,000	70,713	1,115,713
2029	1,075,000	36,338	1,111,338
2030	774,996	349,454	1,124,450
2031	509,996	670,004	1,180,000
	<u>\$ 10,369,992</u>	<u>\$ 2,836,802</u>	<u>\$ 13,206,794</u>

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
CHANGES IN LONG-TERM BOND DEBT  
FOR THE YEAR ENDED MARCH 31, 2019**

Description	Original Bonds Issued	Bonds Outstanding April 1, 2018
Kleinwood Municipal Utility District		
Waterworks and Sewer System Combination		
Unlimited Tax and Revenue Refunding Bonds - Series 2011	\$ 4,625,000	\$ 1,595,000
Kleinwood Municipal Utility District		
Waterworks and Sewer System Combination		
Unlimited Tax and Revenue Refunding Bonds - Series 2012	3,780,000	3,700,000
Kleinwood Municipal Utility District		
Waterworks and Sewer System Combination		
Unlimited Tax and Revenue Refunding Bonds - Series 2014	2,544,996	2,454,996
Kleinwood Municipal Utility District		
Waterworks and Sewer System Combination		
Unlimited Tax and Revenue Refunding Bonds - Series 2015	3,689,996	3,359,996
TOTAL	<u>\$ 14,639,992</u>	<u>\$ 11,109,992</u>
	Tax and	
Bond Authority:	Revenue Bonds	Refunding Bonds
Amount Authorized by Voters	\$ 39,310,000	\$ 11,455,000
Amount Issued	19,955,000	2,525,000
Remaining to be Issued	<u>\$ 19,355,000</u>	<u>\$ 8,930,000</u>
Debt Service Fund cash and investment balances as of March 31, 2019:		<u>\$ 1,894,108</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 1,100,566</u>

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

See accompanying independent auditor's report.



<u>Current Year Transactions</u>					
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding March 31, 2019</u>	<u>Paying Agent</u>	
	<u>Principal</u>	<u>Interest</u>			
\$	\$ 545,000	\$ 44,038	\$ 1,050,000	Wells Fargo Bank, N.A. Houston, TX	
	15,000	129,550	3,685,000	Wells Fargo Bank, N.A. Dallas, TX	
	20,000	77,125	2,434,996	Wells Fargo Bank, N.A. Minneapolis, MN	
	160,000	74,337	3,199,996	Bank of New York Mellon Trust Co., N.A. Dallas, TX	
<u>\$ - 0 -</u>	<u>\$ 740,000</u>	<u>\$ 325,050</u>	<u>\$ 10,369,992</u>		

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND – FIVE YEARS**

	Amounts		
	2019	2018	2017
<b>REVENUES</b>			
Property Taxes	\$ 317,628	\$ 315,913	\$ 303,046
Water Service	397,742	521,473	401,260
Wastewater Service	213,667	211,771	215,073
Water Authority Fee	772,069	626,478	515,672
Penalty and Interest	15,301	9,656	9,055
Tap Connection and Inspection Fees	47,300	144,259	27,511
Water Authority Credits	110,246	110,246	110,246
Sales Tax Revenues	305,340	317,824	343,445
Miscellaneous Revenues	<u>103,802</u>	<u>27,245</u>	<u>48,773</u>
<b>TOTAL REVENUES</b>	<u>\$ 2,283,095</u>	<u>\$ 2,284,865</u>	<u>\$ 1,974,081</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 206,966	\$ 158,552	\$ 132,786
Contracted Services	228,324	224,964	218,316
Purchased Surface Water	625,945	666,070	465,971
Purchased Wastewater Service	125,891	135,742	127,002
Utilities	60,451	66,035	65,093
Water Authority Pumpage Fees	216,012	213,292	163,541
Repairs and Maintenance	320,250	194,617	326,813
Other	140,927	196,856	125,288
Capital Outlay	<u>1,131,053</u>	<u>210,105</u>	<u>248,242</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 3,055,819</u>	<u>\$ 2,066,233</u>	<u>\$ 1,873,052</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (772,724)</u>	<u>\$ 218,632</u>	<u>\$ 101,029</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In(Out)	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ (85,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (772,724)</u>	<u>\$ 218,632</u>	<u>\$ 16,029</u>
<b>BEGINNING FUND BALANCE</b>	<u>4,111,066</u>	<u>3,892,434</u>	<u>3,876,405</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 3,338,342</u>	<u>\$ 4,111,066</u>	<u>\$ 3,892,434</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues						
2016	2015	2019	2018	2017	2016	2015		
\$ 311,509	\$ 307,816	13.9 %	13.9 %	15.3 %	16.4 %	15.7 %		
411,346	434,344	17.4	22.8	20.3	21.6	22.2		
221,994	223,166	9.4	9.3	10.9	11.6	11.4		
454,127	461,095	33.8	27.4	26.1	23.8	23.5		
9,524	10,507	0.7	0.4	0.5	0.5	0.5		
54,228	111,944	2.1	6.3	1.4	2.8	5.7		
110,246	110,246	4.8	4.8	5.6	5.8	5.6		
311,936	286,773	13.4	13.9	17.4	16.4	14.6		
21,677	15,155	4.5	1.2	2.5	1.1	0.8		
<u>\$ 1,906,587</u>	<u>\$ 1,961,046</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>		
\$ 265,339	\$ 210,899	9.1 %	6.9 %	6.7 %	13.9 %	10.8 %		
201,387	214,634	10.0	9.9	11.1	10.5	10.9		
417,603	433,136	27.4	29.2	23.6	21.9	22.1		
91,489	138,013	5.5	5.9	6.4	4.8	7.0		
77,340	66,058	2.7	2.9	3.3	4.1	3.4		
142,928	131,966	9.5	9.3	8.3	7.5	6.7		
416,657	220,631	14.0	8.5	16.6	21.9	11.3		
180,323	123,694	6.2	8.6	6.3	9.4	6.3		
241,337	110,412	49.5	9.2	12.6	12.7	5.6		
<u>\$ 2,034,403</u>	<u>\$ 1,649,443</u>	<u>133.9 %</u>	<u>90.4 %</u>	<u>94.9 %</u>	<u>106.7 %</u>	<u>84.1 %</u>		
<u>\$ (127,816)</u>	<u>\$ 311,603</u>	<u>(33.9) %</u>	<u>9.6 %</u>	<u>5.1 %</u>	<u>(6.7) %</u>	<u>15.9 %</u>		
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>							
\$ (127,816)	\$ 311,603							
4,004,221	3,692,618							
\$ 3,876,405	\$ 4,004,221							

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
DEBT SERVICE FUND – FIVE YEARS**

	Amounts		
	2019	2018	2017
<b>REVENUES</b>			
Property Taxes	\$ 1,012,472	\$ 1,073,641	\$ 1,007,147
Penalty and Interest	7,887	9,476	17,884
Miscellaneous Revenues	25,952	16,154	5,991
<b>TOTAL REVENUES</b>	<u>\$ 1,046,311</u>	<u>\$ 1,099,271</u>	<u>\$ 1,031,022</u>
<b>EXPENDITURES</b>			
Other Expenditures	\$ 48,692	\$ 51,519	\$ 76,189
Debt Service Principal	740,000	720,000	730,000
Debt Service Interest and Fees	327,650	344,275	359,400
Bond Issuance Costs			
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,116,342</u>	<u>\$ 1,115,794</u>	<u>\$ 1,165,589</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (70,031)</u>	<u>\$ (16,523)</u>	<u>\$ (134,567)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	\$	\$	\$ 85,000
Proceeds from Sale of Refunding Bonds			
Transfer to Refunded Bond Escrow Agent			
Bond Premium			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 85,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (70,031)</u>	<u>\$ (16,523)</u>	<u>\$ (49,567)</u>
<b>BEGINNING FUND BALANCE</b>	<u>1,933,337</u>	<u>1,949,860</u>	<u>1,999,427</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 1,863,306</u>	<u>\$ 1,933,337</u>	<u>\$ 1,949,860</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>884</u>	<u>884</u>	<u>877</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>834</u>	<u>847</u>	<u>832</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 1,111,137	\$ 1,090,704	96.7 %	97.6 %	97.7 %	99.0 %	99.2 %
9,107	7,462	0.8	0.9	1.7	0.8	0.7
2,140	602	2.5	1.5	0.6	0.2	0.1
<u>\$ 1,122,384</u>	<u>\$ 1,098,768</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 50,204	\$ 49,912	4.7 %	4.7 %	7.4 %	4.5 %	4.5 %
635,000	635,000	70.7	65.5	70.8	56.6	57.8
380,313	424,790	31.3	31.3	34.9	33.9	38.7
152,629	130,363				13.6	11.9
<u>\$ 1,218,146</u>	<u>\$ 1,240,065</u>	<u>106.7 %</u>	<u>101.5 %</u>	<u>113.1 %</u>	<u>108.6 %</u>	<u>112.9 %</u>
<u>\$ (95,762)</u>	<u>\$ (141,297)</u>	<u>(6.7) %</u>	<u>(1.5) %</u>	<u>(13.1) %</u>	<u>(8.6) %</u>	<u>(12.9) %</u>
\$ 3,689,996	\$ 2,544,996					
(3,740,960)	(2,588,225)					
210,139	169,151					
<u>\$ 159,175</u>	<u>\$ 125,922</u>					
\$ 63,413	\$ (15,375)					
1,936,014	1,951,389					
<u>\$ 1,999,427</u>	<u>\$ 1,936,014</u>					
<u>876</u>	<u>871</u>					
828	825					

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
MARCH 31, 2019**

District Mailing Address      -   Kleinwood Municipal Utility District  
Coats Rose, P.C.  
9 Greenway Plaza, Suite 1000  
Houston, TX 77046

District Telephone Number    -   (713) 651-0111

<b>Board Members</b>	<b>Term of Office (Elected or Appointed)</b>	<b>Fees of Office for the year ended March 31, 2019</b>	<b>Expense Reimbursements for the year ended March 31, 2019</b>	<b>Title</b>
Robert Ehmann	05/17 05/21 (Elected)	\$     1,950	\$     -0-	President
David Guerrero	05/15 05/19 (Elected)	\$     1,800	\$       792	Vice President
Jeff Gobbell	05/15 05/19 (Elected)	\$     3,450	\$     -0-	Secretary/ Treasurer
Joseph Fratangelo	05/15 05/19 (Elected)	\$     4,350	\$       749	Assistant Vice President/ Assistant Secretary
Sherry Allard	05/17 05/21 (Elected)	\$     1,800	\$     -0-	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):  
June 27, 2019.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
MARCH 31, 2019**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2019</u>	<u>Title</u>
Coats Rose, P.C.	07/24/80	\$ 104,776	General Counsel
McCall Gibson Swedlund Barfoot PLLC	03/26/15	\$ 15,300	Auditor
Claudia Redden & Associates, LLC	02/28/78	\$ 25,119	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	04/25/02	\$ 2,085	Delinquent Tax Attorney
Jones & Carter, Inc.	02/22/79	\$ 176,312	Engineer
Blitch Associates, Inc.	03/11/97	\$ -0-	Financial Advisor
Environmental Development Partners	04/11/08	\$ 394,603	Operator
Wheeler & Associates	12/17/75	\$ 30,965	Tax Assessor/ Collector
Harris County	Annually	\$ 138,330	Security

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