

OFFICIAL STATEMENT DATED FEBRUARY 9, 2021

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF ENCANTO REAL UTILITY DISTRICT AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE "LEGAL MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

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

NEW ISSUE-Book-Entry Only

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

\$1,490,000

ENCANTO REAL UTILITY DISTRICT
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX REFUNDING BONDS
SERIES 2021

Dated Date: March 1, 2021

Due: May 1, as shown below

Principal of the bonds described above (the "Bonds") will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar, initially, Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from March 1, 2021 and will be payable on May 1 and November 1 of each year commencing November 1, 2021 (eight months interest), until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only in denominations of \$5,000 each or integral multiples thereof. The Bonds mature and are subject to redemption prior to their maturity as shown below.

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



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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (May 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (a)	Due (May 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (d)
2022	\$ 5,000	3.000 %	0.350 %	292507 LA6	2026	\$ 255,000	3.000 %	0.700 %	292507 LE8
2023	225,000	3.000	0.400	292507 LB4	2027	265,000 (b)	2.000	0.800	292507 LF5
2024	230,000	3.000	0.500	292507 LC2	2028	270,000 (b)	2.000	0.920	292507 LG3
2025	240,000	3.000	0.600	292507 LD0					

- (a) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and will be included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter (as herein defined) shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (b) Bonds maturing on or after May 1, 2027, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on May 1, 2026, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed. Accrued interest from March 1, 2021 is to be added to the price.

The Bonds, when issued, will constitute valid and legally binding obligations of Encanto Real Utility District (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Marks Richardson PC, Bond Counsel, Houston, Texas. Certain legal matters will be passed on for the Underwriter by McCall, Parkhurst & Horton L.L.P., Houston, Texas, Underwriter's Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about March 16, 2021.

SAMCO CAPITAL

TABLE OF CONTENTS

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS	1
USE OF INFORMATION IN OFFICIAL STATEMENT	2
SALE AND DISTRIBUTION OF THE BONDS	3
OFFICIAL STATEMENT SUMMARY	4
SELECTED FINANCIAL INFORMATION	8
PLAN OF FINANCING	9
THE BONDS	12
BOOK-ENTRY-ONLY SYSTEM	16
THE DISTRICT	18
THE DEVELOPERS	19
MANAGEMENT	20
THE SYSTEM	21
FINANCIAL STATEMENT	24
ESTIMATED OVERLAPPING DEBT STATEMENT	25
TAX DATA	26
TAX PROCEDURES	28
WATER AND SEWER OPERATIONS	33
INVESTMENT CONSIDERATIONS	34
MUNICIPAL BOND RATING	40
MUNICIPAL BOND INSURANCE	40
LEGAL MATTERS	42
VERIFICATION OF MATHEMATICAL CALCULATIONS	44
NO MATERIAL ADVERSE CHANGE	45
NO-LITIGATION CERTIFICATE	45
PREPARATION OF OFFICIAL STATEMENT	45
UPDATING THE OFFICIAL STATEMENT	46
CERTIFICATION OF OFFICIAL STATEMENT	46
CONTINUING DISCLOSURE OF INFORMATION	46
MISCELLANEOUS	48
INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2020	APPENDIX A
SPECIMEN MUNICIPAL BOND INSURANCE POLICY	APPENDIX B

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$1,582,515.29 (representing the par amount of the Bonds of \$1,490,000.00, plus a premium on the Bonds of \$113,719.00, less an Underwriter’s discount of \$21,203.71) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

Prices and Marketability

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

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

INFECTIOUS DISEASE OUTBREAK (COVID-19)

General...

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

Impact...

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

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

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. The financial and operating data contained herein are the latest available but are as of dates and for partial periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition. See “INVESTMENT CONSIDERATIONS—Infectious Disease Outbreak (COVID-19).”

EXTREME WEATHER EVENTS; HURRICANE HARVEY

General...

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

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

Impact...

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

THE FINANCING

<i>The Issuer...</i>	Encanto Real Utility District (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”
<i>The Issue...</i>	\$1,490,000 Encanto Real Utility District, Unlimited Tax Refunding Bonds, Series 2021, dated March 1, 2021 (the “Bonds”). Interest on the Bonds will accrue from March 1, 2021, and will be payable on May 1 and November 1 of each year commencing November 1, 2021 (eight months interest) until maturity or prior redemption. The Bonds mature serially on May 1 in each year from 2022 through 2028, inclusive, in the respective amounts and bear interest at the rates for each maturity shown on the cover page hereof. The Bonds maturing on May 1, 2027, are subject to optional redemption, in whole or, from time to time, in part, on May 1, 2026, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. If fewer than all the Bonds are redeemed, the maturities and amounts thereof to be redeemed shall be selected by the District in integral multiples of \$5,000 in any one maturity. If fewer than all the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected by DTC, as defined herein, in accordance with its procedures. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”
<i>Book-Entry Only...</i>	The Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”
<i>Authority for Issuance...</i>	At an election held within the District on May 2, 1992, voters of the District authorized a total of \$7,950,000 principal amount in unlimited tax bonds for the purpose of refunding bonds of the District. The Bonds are issued by the District pursuant to said authorization and to the terms and provisions of the Bond Order (as hereinafter defined), Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; and Chapters 49 and 54 of the Texas Water Code, as amended; and City of Houston Ordinance No. 97-416. See “THE BONDS— Authority for Issuance”.
<i>Source of Payment...</i>	The Bonds and the Remaining Outstanding Bonds (as hereinafter defined) are payable from a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. See “THE BONDS—Source and Security for Payment.”
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds and lawfully available District funds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund \$1,495,000 principal amount of the Outstanding Bonds (as hereinafter defined) in order to achieve net savings in the District's annual debt service expense. See “PLAN OF FINANCING.”
<i>Payment Record...</i>	The District has previously issued four series of unlimited tax and revenue bonds, six series of unlimited tax bonds, and two series of unlimited tax refunding bonds, of which a total principal amount of \$39,605,000 is currently outstanding (the “Outstanding Bonds”). See “INVESTMENT CONSIDERATIONS—Future Debt.” The District has timely paid its debt service on the Outstanding Bonds.
<i>Qualified Tax-Exempt Obligations...</i>	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See "LEGAL MATTERS— Qualified Tax-Exempt Obligations.”

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

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") and Moody's Investors Service, Inc. (Moody's) has assigned municipal bond ratings of "AA" (stable outlook) and "A2" (stable outlook), respectively, to this issue of Bonds with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. Moody's has also assigned an underlying rating of "Baa1" to the Bonds. An explanation of the ratings may be obtained from S&P and Moody's. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND RATING," "MUNICIPAL BOND INSURANCE," and "APPENDIX B."

Bond Counsel...

Marks Richardson PC, Houston, Texas.

Underwriter's Counsel...

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

Financial Advisor...

Masterson Advisors LLC, Houston, Texas.

Paying Agent/Registrar...

Zions Bancorporation, National Association, Houston, Texas.

*Paying Agent for the
Refunded Bonds...*

Wells Fargo Bank, N.A., Minneapolis, Minnesota

Verification Agent...

Public Finance Partners LLC, Minneapolis, Minnesota.

THE DISTRICT

Description...

The District is a conservation and reclamation district and a political subdivision of the State of Texas, created by special act of the 62nd Legislature of the State of Texas effective June 4, 1971, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 757 acres of land. See "THE DISTRICT."

Location...

The District is located approximately 24 miles northwest of downtown Houston. The District is bounded on the north by Spring Creek, on the south by Spring Stuebner Road, on the east by an unnamed drainage ditch, and is partially bounded on the west by Sherrod Lane. The District is located entirely within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Klein Independent School District. See "THE DISTRICT."

Status of Development...

Water, sanitary sewer and drainage facilities have been constructed to serve Fox Hollow Section 1 (approximately 40 acres - 114 single family residential lots), Foxhollow West Section 1 (approximately 36 acres - 216 single family residential lots), Foxhollow South (approximately 20 acres - 120 single family residential lots), Sawmill Ranch Section 1 (approximately 37 acres - 69 single-family lots), Sawmill Ranch Section 2 (approximately 8 acres - 35 single-family lots), Sawmill Ranch Section 3 (approximately 14 acres- 54 single-family lots), Sawmill Ranch Section 4 (approximately 7 acres - 21 single-family lots), Sawmill Ranch Section 5 (approximately 38 acres - 136 single-family lots), Park at Klein Section 1 (approximately 29 acres - 123 single-family lots), Park at Klein, Section 2 (approximately 21 acres - 95 lots), McKenzie Park Section 1 (58 acres - 120 single-family lots) McKenzie Park, Section 2 (15 acres - single-family 55 lots), McKenzie Park, Section 3 (14 acres - 39 single-family lots) and McKenzie Park Section 4 (approximately 83 acres - 69 single-family lots) for a total of 1,266 single family lots on approximately 420 acres of land. As of December 17, 2020, the District contained 1,212 completed and occupied homes, 12 homes completed and not occupied, 4 homes listed in a builder's name and 38 vacant lots.

*Developers and
Builders...*

Meritage Homes of Texas LLC, an Arizona limited liability company ("Meritage") developed Sawmill Ranch, Sections 1 through 5 on an approximately 105 acre tract of land. Homes have been constructed on all available lots in Sawmill Ranch.

MCK DEV, LLC ("MCK") originally owned approximately 188 acres of land in the District. MCK financed and developed Mossy Oaks Drive, detention and drainage facilities, water plant no. 1 expansion (with other developers), park improvements, amenity lake improvements, trail improvements and recreational facilities to serve the McKenzie Park development. MCK sold McKenzie Park Sections 1, 2 and 3 to D.R. Horton - Texas, Ltd. ("D.R. Horton"). D. R. Horton financed the construction of the water, sewer and drainage facilities for McKenzie Park, Sections 1, 2 and 3.

MCK sold McKenzie Park, Section 4 to Tres Lago Development LLC ("Tres Lago"). Tres Lago has financed the water, sewer and drainage facilities for McKenzie Park, Section 4, which has been developed as a private and gated custom home subdivision. Currently several custom homebuilders are building custom homes in McKenzie Park, Section 4. As of January 1, 2020, Harris County Appraisal District records indicate that 26 of the lots remaining in McKenzie Park Section 4 were owned by Tres Lago.

The Park at Klein is being developed by Boardwalk II, Ltd. and Apartment Acquisitions II, Ltd., entities under the control of Gary and Robyn Gill who develop various projects under the name Tejas Tierra, LLC ("Tejas"). Tejas has developed The Park at Klein Sections 1 and 2. Homes have been constructed on all available lots in The Park at Klein. Tejas owns an additional approximately 21 acres of undeveloped land in the District.

Meritage, MCK, DR Horton, Tres Lago and Tejas are sometimes referred to herein, collectively, as the "Developers". Meritage, DR Horton and Tres Lago own no additional land in the District.

Approximately 38 acres of land within the District are owned by Centerpoint Energy and are used as an electrical substation.

Approximately 4 acres of land have been developed to serve a one-story, 14,772 square foot medical office building.

Klein Independent School District has constructed an elementary school on an approximately 18 acre tract of land in the District, which is exempt from taxation.

The first and second phases of the Frassati Catholic High School ("The Frassati School") have been constructed on approximately 60 acres. The Frassati School is exempt from taxation.

There are 82 acres of developable land in the District remaining to be developed. Approximately 21 acres of the undeveloped land is owned by Tejas. Approximately 23 acres of the undeveloped land in the District is owned by Shiro, LLC and approximately 31 acres of the undeveloped land in the District is owned by Superior Advantage Ltd. Approximately 7 acres of the undeveloped land is owned by Timewise/Boardwalk Pipeline. The District has not been advised of development plans for any of such land. In addition to the development described above, the District has approximately 135 acres of undevelopable land contained in easements, rights-of-way, and plant sites.

Annexation...

Land Advisors Organization owns approximately 115 acres outside the boundaries of the District which the District has agreed to annex upon consent to such annexation by the City of Houston. An extension of water, sewer and drainage lines and roads will be necessary to serve such tract, as well as an expansion of wastewater and water capacity.

INVESTMENT CONSIDERATIONS

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

SELECTED FINANCIAL INFORMATION

2020 Taxable Assessed Valuation	\$326,539,661	(a)
Gross Direct Debt Outstanding	\$39,600,000	(b)
Estimated Overlapping Debt	<u>21,961,439</u>	(c)
Total Gross Direct Debt and Estimated Overlapping Debt	\$61,561,439	
Ratio of Gross Direct Debt to:		
2020 Taxable Assessed Valuation	12.13%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2020 Taxable Assessed Valuation	18.85%	
Operating Fund Balance as of January 19, 2021	\$2,586,057	(d)
Construction Fund Balance as of January 19, 2021	\$5,445,119	(e)
Debt Service Fund Balance as of January 19, 2021	\$1,793,684	(f)
2020 District Tax Rate:		
Debt Service	\$0.785	
Maintenance and Operations	<u>0.105</u>	
Total.....	\$0.890	
Average Annual Debt Service Requirement (2021-2043).....	\$2,413,878	(g)
Maximum Annual Debt Service Requirement (2032).....	\$2,608,316	(g)
Tax Rates Required to Pay Average Annual Debt Service (2021-2043) at a 95% Collection Rate		
Based upon 2020 Taxable Assessed Valuation	\$0.78	
Tax Rates Required to Pay Maximum Annual Debt Service (2032) at a 95% Collection Rate		
Based upon 2020 Taxable Assessed Valuation	\$0.85	
Connection count as of December 17, 2020		
Single family residential – completed and occupied.....	1,212	
Single family residential – completed and unoccupied.....	12	
Single family residential listed in a builder’s name	4	
Schools.....	10	
Commercial.....	2	
Total.....	1,240	
Estimated Population	4,242	(h)

- (a) Value includes \$321,684,662 of taxable value as certified by the Harris County Appraisal District (the "Appraisal District") and \$4,854,999 of uncertified value, representing the owner's opinion of value on properties in the District not yet certified for 2020, which totals \$326,539,661. See "TAX PROCEDURES."
- (b) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (c) See "ESTIMATED OVERLAPPING DEBT STATEMENT."
- (d) Includes approximately \$39,317 that has been escrowed with the District by Meritage to ensure maintenance of certain detention bonds. It is anticipated that such funds will be refunded to Meritage.
- (e) Included in the Construction Fund Balance are approximately \$625,000 from the Series 2017 Bonds for the construction of the Wastewater Treatment Plant No. 1, approximately \$2,600,000 from the Series 2018 Bonds for facilities to serve the Park at Klein and approximately \$1,350,000 from the Series 2019 Bonds for facilities to serve the Park at Klein.
- (f) The District will contribute \$17,000 toward the Bonds. Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.
- (g) See "PLAN OF FINANCING—Debt Service Requirements."
- (h) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

\$1,490,000

ENCANTO REAL UTILITY DISTRICT
(A political subdivision of the State of Texas located within Harris County)

**UNLIMITED TAX REFUNDING BONDS
SERIES 2021**

This Official Statement provides certain information in connection with the issuance by Encanto Real Utility District (the "District") of its \$1,490,000 Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds").

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

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

PLAN OF FINANCING

Purpose

The proceeds of the Bonds and lawfully available debt service funds are being used to refund and defease a portion of the District's Outstanding Bonds as listed below in "Refunded Bonds" totaling \$1,495,000 (the "Refunded Bonds") in order to achieve a net savings in the District's debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See "Sources and Uses of Funds" below. A total of \$38,110,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds").

Outstanding Bonds

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

Series	Original Principal Amount	Principal Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
WW&SS Combination Unlimited Tax & Revenue Bonds, Series 2006	\$ 1,280,000	\$ 755,000	\$ 600,000	\$ 155,000
Unlimited Tax Refunding Bonds, Series 2012	1,950,000	1,150,000	895,000	255,000
Unlimited Tax Bonds, Series 2015	2,860,000	2,860,000	-	2,860,000
Unlimited Tax Bonds, Series 2015A	6,900,000	6,350,000	-	6,350,000
Unlimited Tax Bonds, Series 2016	9,700,000	8,300,000	-	8,300,000
Unlimited Tax Bonds, Series 2017	9,000,000	8,400,000	-	8,400,000
Unlimited Tax Bonds, Series 2018	9,850,000	9,150,000	-	9,150,000
Unlimited Tax Bonds, Series 2019	2,640,000	2,640,000	-	2,640,000
Total	\$ 44,180,000	\$ 39,605,000	\$ 1,495,000	\$ 38,110,000
The Bonds				<u>1,490,000</u>
The Bonds and Remaining Outstanding Bonds				<u>\$ 39,600,000</u>

Refunded Bonds

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

<u>Maturity Date</u> <u>May 1</u>	<u>Principal Amounts</u> <u>Series 2006</u>	<u>Principal Amounts</u> <u>Series 2012</u>
2023	\$ 85,000 (a)	\$ 135,000
2024	90,000 (a)	140,000
2025	95,000 (a)	145,000
2026	105,000 (b)	150,000
2027	110,000 (b)	160,000 (c)
2028	115,000 (b)	165,000 (c)
	<u>\$ 600,000</u>	<u>\$ 895,000</u>
Redemption Date:	March 17, 2021	March 17, 2021

- (a) Represents a term bond in the aggregate principal amount of \$270,000 maturing May 1, 2025.
(b) Represents a term bond in the aggregate principal amount of \$330,000 maturing May 1, 2028.
(c) Represents a term bond in the aggregate principal amount of \$325,000 maturing May 1, 2028.

Payment of Refunded Bonds

The Refunded Bonds and the interest due thereon, are to be paid on the redemption date from funds to be deposited with Wells Fargo Bank, N.A., Minneapolis, Minnesota, as Paying Agent for the Refunded Bonds (the "Paying Agent for the Refunded Bonds"). The Bond Order provides that from the proceeds of the sale of the Bonds and lawfully available debt service funds, the District will deposit with the Paying Agent for the Refunded Bonds the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Paying Agent for the Refunded Bonds in a segregated payment account (the "Payment Account"). By the deposit of the cash with the Paying Agent for the Refunded Bonds and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior order of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of the amounts so deposited in the Payment Account, and the amounts so deposited in the Payment Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

Sources and Uses of Funds

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

Sources of Funds:

Principal Amount of the Bonds	\$1,490,000.00
Plus: Premium on the Bonds.....	113,719.00
Transfer from Debt Service Fund	17,000.00
Total Sources of Funds.....	\$1,620,719.00

Uses of Funds:

Deposit to Payment Account	\$1,517,403.17
Issuance Expenses and Underwriters' Discount (a).....	103,315.83
Total Uses of Funds	\$1,620,719.00

(d) Includes municipal bond insurance premium.

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds, plus the debt service on the Bonds (\$1,490,000 principal amount).

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2021	\$ 2,477,599	\$ 59,303		\$ 26,233	\$ 26,233	\$ 2,444,530
2022	2,555,766	59,303	\$ 5,000	39,275	44,275	2,540,739
2023	2,553,853	275,196	225,000	35,825	260,825	2,539,481
2024	2,524,466	276,685	230,000	29,000	259,000	2,506,781
2025	2,543,074	277,605	240,000	21,950	261,950	2,527,419
2026	2,515,534	282,815	255,000	14,525	269,525	2,502,244
2027	2,488,099	287,130	265,000	8,050	273,050	2,474,019
2028	2,454,999	285,780	270,000	2,700	272,700	2,441,919
2029	2,498,953	-	-	-	-	2,498,953
2030	2,563,266	-	-	-	-	2,563,266
2031	2,536,644	-	-	-	-	2,536,644
2032	2,608,316	-	-	-	-	2,608,316
2033	2,586,113	-	-	-	-	2,586,113
2034	2,552,163	-	-	-	-	2,552,163
2035	2,521,075	-	-	-	-	2,521,075
2036	2,486,838	-	-	-	-	2,486,838
2037	2,449,831	-	-	-	-	2,449,831
2038	2,421,013	-	-	-	-	2,421,013
2039	2,385,638	-	-	-	-	2,385,638
2040	2,396,525	-	-	-	-	2,396,525
2041	2,397,888	-	-	-	-	2,397,888
2042	1,875,825	-	-	-	-	1,875,825
2043	1,261,975	-	-	-	-	1,261,975
Total	\$ 55,655,448	\$ 1,803,816	\$ 1,490,000	\$ 177,558	\$ 1,667,558	\$ 55,519,190

Maximum Annual Debt Service Requirement (2032).....	\$2,608,316
Average Annual Debt Service Requirements (2021-2043)	\$2,413,878

THE BONDS

General

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

Description

The Bonds will be dated March 1, 2021, with interest payable on November 1, 2021 (eight months interest), and on each May and November 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from March 1, 2021, and thereafter, from the most recent Interest Payment Date. The Bonds mature on May 1 of the years and in the amounts and accrue interest at the rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the Book-Entry-Only System described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At an election held within the District on May 2, 1992, voters of the District authorized a total of \$7,950,000 principal amount in unlimited tax bonds for the purpose of refunding bonds of the District. The Bonds are issued by the District pursuant to said election and the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; and City of Houston Ordinance No. 97-416.

Source of and Security for Payment

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

Funds

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

Record Date

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

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after May 1, 2027, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on May 1, 2026, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY- ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Method of Payment of Principal and Interest

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

Registration

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

Replacement of Paying Agent/Registrar

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of \$54,600,000 principal amount of unlimited tax bonds for the sole purpose of acquiring or constructing water, sanitary sewer and drainage facilities, \$75,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities or refunding outstanding bonds, and \$7,950,000 principal amount of unlimited tax refunding bonds for the sole purpose of refunding outstanding bonds and could authorize additional amounts. The District currently has \$14,600,000 principal amount of unlimited tax bonds authorized but unissued solely for said improvements and facilities and \$75,000,000 principal amount of unlimited tax bonds authorized but unissued for either said improvements and facilities or refunding outstanding bonds. After the issuance of the Bonds, the District will have \$7,550,000 principal amount of unlimited tax refunding bonds authorized but unissued solely for refunding purposes. The District's voters have also authorized issuance of a total of \$8,300,000 unlimited tax bonds for the purpose of acquiring or constructing recreational facilities, all of which remains unissued, and could authorize additional amounts. The District's voters have also authorized issuance of a total of \$14,600,000 of unlimited tax bonds for the purpose of financing and constructing road facilities, all of which remains unissued. See "Financing Park and Recreational Facilities" and "Financing Road Facilities" below.

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

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

Financing Road Facilities

Pursuant to the provisions of the Texas Constitution and Chapter 54, Texas Water Code, as amended, conservation and reclamation districts created pursuant to said Chapter 54 are authorized to development and finance with property taxes certain road facilities following the granting of road powers by the Commission and a successful District election to approve the issuance of road bonds payable from taxes. The Commission granted road powers to the District, and at an election held within the District on November 8, 2011, voters of the District authorized a total of \$14,600,000 unlimited tax bonds for financing and constructing road facilities. See "Issuance of Additional Debt" herein and INVESTMENT CONSIDERATIONS—Future Debt." Issuance of additional bonds for road facilities may dilute the security for the Bonds.

Financing Recreational Facilities

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

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the district duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the district at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the district obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the Commission in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the district is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the district, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

At an election held within the District on May 14, 2011, voters of the District authorized a total of \$8,300,000 in bonds for the purpose of acquiring or constructing recreational facilities, all of which remains unissued, and could authorize additional amounts.

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

Annexation

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

Strategic Partnership Agreement

The District is authorized to enter into a Strategic Partnership Agreement with the City of Houston (the "City") to provide the terms and conditions under which the services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District and could provide for the conversion of a limited purpose annexation to a general purpose annexation within ten years, or the payment of a fee in lieu of annexation to be derived from residential property within the District based on the costs of providing municipal services to the District. Although the City has negotiated and entered into such an agreement with other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District, although no representation can be made regarding the future likelihood of an agreement or the terms thereof.

Consolidation

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

No Arbitrage

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

Remedies in Event of Default

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

THE DISTRICT

General

The District is a municipal utility district created by special act of the 62nd Legislature of the State of Texas effective June 4, 1971 and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the TCEQ.

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

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

Description and Location

The District is located approximately 24 miles northwest of downtown Houston. The District is bounded on the north by Spring Creek, on the south by Spring Stuebner Road, on the east by an unnamed drainage ditch, and is partially bounded on the west by Sherrod Lane. The District contains approximately 757 acres of land.

Residential Development

Water, sanitary sewer and drainage facilities have been constructed to serve Fox Hollow Section 1 (approximately 40 acres - 114 single family residential lots), Foxhollow West Section 1 (approximately 36 acres - 216 single family residential lots), Foxhollow South (approximately 20 acres - 120 single family residential lots), Sawmill Ranch Section 1 (approximately 37 acres - 69 single-family lots), Sawmill Ranch Section 2 (approximately 8 acres - 35 single-family lots), Sawmill Ranch Section 3 (approximately 14 acres- 54 single-family lots), Sawmill Ranch Section 4 (approximately 7 acres - 21 single-family lots), Sawmill Ranch Section 5 (approximately 38 acres – 136 single-family lots), Park at Klein Section 1 (approximately 29 acres - 123 single-family lots), Park at Klein, Section 2 (approximately 21 acres - 95 lots), McKenzie Park Section 1 (58 acres - 120 single-family lots) McKenzie Park, Section 2 (15 acres - single-family 55 lots), McKenzie Park, Section 3 (14 acres - 39 single-family lots) and McKenzie Park Section 4 (approximately 83 acres - 69 single-family lots) for a total of 1,266 single family lots on approximately 420 acres of land. As of December 17, 2020, the District contained 1,212 completed and occupied homes, 12 homes completed and not occupied, 4 homes listed in a builder's name and 38 vacant lots.

An approximately 105 acre tract of land owned by Meritage Homes of Texas LLC, an Arizona limited liability company ("Meritage") has been developed as Sawmill Ranch, Sections 1 through 5. Meritage has completed its building program in Sawmill Ranch.

MCK DEV, LLC ("MCK") originally owned approximately 188 acres of land in the District. MCK has financed and developed Mossy Oaks Drive, detention and drainage facilities, water plant no. 1 expansion (along with Meritage and other developers), park improvements, amenity lake improvements, trail improvements and recreational facilities to serve the McKenzie Park development. MCK sold McKenzie Park Sections 1, 2 and 3 to D.R. Horton - Texas, Ltd. ("D.R. Horton"). D.R. Horton financed and completed the construction of the water, sewer and drainage facilities for McKenzie Park Sections 1, 2 and 3.

MCK sold McKenzie Park, Section 4 to Tres Lago Development LLC ("Tres Lago"). Tres Lago has financed and completed the water, sewer and drainage facilities for McKenzie Park, Section 4, which has been developed as a private and gated custom home subdivision.

The Park at Klein is being developed by Boardwalk II, Ltd. and Apartment Acquisitions II, Ltd., entities under the control of Gary and Robyn Gill who develop various projects under the name, Tejas Tierra, LLC ("Tejas"). Tejas has developed The Park at Klein Sections 1 and 2. Tejas owns an additional approximately 21 acres of land in the District.

Homebuilding Program

Currently several custom homebuilders are building custom homes in McKenzie Park, Section 4. As of January 1, 2020, Harris County Appraisal District records indicate that 26 of the lots remaining in McKenzie Park Section 4 were owned by Tres Lago.

Commercial Development

Approximately 38 acres of land within the District are owned by Centerpoint Energy and are used as an electrical substation.

Approximately 4 acres of land have been developed to serve a one-story, 14,772 square foot medical office building.

Schools

Klein Independent School District has constructed an elementary school on an approximately 18-acre tract of land in the District, which is exempt from taxation.

Phases I and II of the Frassati Catholic High School ("The Frassati School") have been constructed on approximately 60 acres. The Frassati School is exempt from taxation.

Undeveloped Acreage

There are 82 acres of developable land in the District remaining to be developed. Approximately 21 acres of the undeveloped land is owned by Tejas Tierra, LLC. Approximately 23 acres of the undeveloped land in the District is owned by Shiro, LLC and approximately 31 acres of the undeveloped land in the District is owned by Superior Advantage Ltd. Approximately 7 acres of the undeveloped land is owned by Timewise/Boardwalk Pipeline. The District has not been advised of development plans for any of such land. In addition to the development described above, the District has approximately 135 acres of undevelopable land contained in easements, rights-of-way, and plant sites.

Annexations

Land Advisors Organization owns approximately 115 acres outside the boundaries of the District which the District has agreed to annex upon consent to such annexation by the City of Houston. An extension of water, sewer and drainage lines and roads will be necessary to serve such tract, as well as an expansion of wastewater and water capacity.

THE DEVELOPERS

Role of a Developer

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

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

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

Meritage Homes of Texas, LLC

Meritage Homes of Texas LLC, an Arizona limited liability company ("Meritage") owned approximately 105 acres of land in the District which Meritage has developed as Sawmill Ranch Sections 1 through 5. Meritage owns no additional land in the District.

MCKDEV, LLC

MCK DEV, LLC ("MCK") originally owned approximately 188 acres of land for the McKenzie Park development. MCK sold McKenzie Park Sections 1, 2 and 3 to D.R. Horton - Texas, Ltd. and McKenzie Park Section 4 to Tres Lago Development LLC. MCK has financed and developed Mossy Oaks Drive, detention and drainage facilities, water plant no. 1 expansion, park improvements, amenity lake improvements, trail improvements and recreational facilities to serve the McKenzie Park development. MCK owns approximately 17 acres of land in the District in addition to 2 detention facilities located in McKenzie Park Section 4.

DR Horton

DR Horton Texas, Ltd. ("DR Horton") has developed McKenzie Park Sections 1, 2 and 3. DR Horton owns no additional land in the District.

Tres Lago Development LLC

Tres Lago Development LLC ("Tres Lago") has developed McKenzie Park Section 4 as a private and gated custom home subdivision. Tres Lago owns no additional land in the District.

Tejas Tierra

The Park at Klein is being developed by Boardwalk II, Ltd. and Apartment Acquisitions II, Ltd., entities under the control of Gary and Robyn Gill who develop various projects under the name, Tejas Tierra, LLC ("Tejas"). The Park at Klein Sections 1 and 2 have been developed by Tejas. Tejas owns an additional approximately 21 acres of land in the District.

Meritage, MCK, DR Horton, Tres Lago and Tejas are sometimes referred to herein, collectively, as the "Developers".

MANAGEMENT

Board of Directors

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bruce D. Burkhardt	President	May 2022
Katherine Sloan	Vice President	May 2022
Phil Knox	Secretary	May 2022
David Mills	Asst. Secretary	May 2024
Jeffrey Lowrey	Director	May 2024

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

Tax Assessor/Collector

Land and improvements in the District are appraised for taxation by the Harris County Appraisal District. The District contracts with Wheeler & Associates, Inc. to act as Tax Assessor/Collector for the District.

System Operator

The District contracts with Water District Management Company ("WDM") for maintenance and operation of the District's system (the "Operator").

Bookkeeper

The District contracts with Municipal Accounts & Consulting, L.P. for bookkeeping services for the District.

Engineer

The District's consulting engineer is Dannenbaum Engineering Corporation (the "Engineer").

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which audited financial statements are filed with the Commission. The financial statements of the District, as of June 30, 2020, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's June 30, 2020, audited financial statements.

Bond Counsel and General Counsel

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

Financial Advisor

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

THE SYSTEM

Regulation

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

Water Distribution and Sanitary Sewer Collection and Drainage System

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

Water Supply

The District has one water plant which contains one 867 gallon per minute ("gpm") well with a 125,000 gallon ground storage tank and a 200,000 gallon ground storage tank, a 20,000 gallon pressure tank, a 10,000 gallon pressure tank, and four 750 gpm booster pumps. According to Dannenbaum Engineering Corporation, the District's consulting engineer (the "Engineer"), the District's water plant currently has sufficient capacity to serve approximately 1,083 equivalent single-family equivalent connections ("ESFCs"). Construction of a second water well at Water Plant No. 1, of approximately 1,200 gpm, which provides the capacity to serve an additional 2,000 connections has been completed.

The District also has an emergency interconnect with Northampton Municipal Utility District, which serves as an emergency source of water for the District.

Subsidence District Requirements

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

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

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning with the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning with the year 2035, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$9.58 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

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

Wastewater Treatment Facilities

Wastewater treatment for the District is provided by a 250,000 gallon per day ("gpd") wastewater treatment plant. According to the Engineer, the District has capacity sufficient to serve approximately 1,266 single family equivalent connections. The Engineer has designed a 125,000 gpd expansion to the wastewater treatment plant, and proceeds of the Series 2017 Bonds are being used to finance design and construction of the expansion. The expansion is expected to be completed by mid 2021.

The District has constructed filtration equipment that will make it possible to treat the effluent from the District's existing wastewater treatment plant to the quality standards required for reclaimed water. The new system intercepts the effluent before it is metered and discharged to Spring Creek. The effluent is diverted to a new wet well and pumped through two vertical pressure filters that provide the tertiary treatment that is required for beneficial water reuse. Following filtration, the reclaimed water flows to an existing pond with a compacted clay liner that is part of the McKenzie Park storm water detention system. The reclaimed water serves to make the pond(s) into an attractive amenity and helps eliminate the need for filling the pond(s) from groundwater or municipal drinking water sources. The new system also reduces the amount of wastewater discharged into Spring Creek.

100-Year Flood Plain

““Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the Engineer, the most recent federal flood insurance administration map shows that none of the land in Foxhollow Section 1, Foxhollow West Section 1, Foxhollow South, Sawmill Ranch Sections 1, 2, 3, 4 and 5, McKenzie Park Sections 1, 2 and 3 and 4 and The Park at Klein Sections 1 and 2 is outside the 100-year flood plain. Of the remaining undeveloped land in the District (without above-ground improvements), approximately 55 acres are in the 100-year flood plain and are not developable. See “INVESTMENT CONSIDERATIONS—Extreme Weather Events; Hurricane Harvey.”

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

FINANCIAL STATEMENT

2020 Taxable Assessed Valuation	\$326,539,661 (a)
Gross Direct Debt Outstanding	\$39,600,000 (b)
Estimated Overlapping Debt	<u>21,961,439 (c)</u>
Total Gross Direct Debt and Estimated Overlapping Debt	\$61,561,439
Ratios of Gross Direct Debt to:	
2020 Taxable Assessed Valuation	12.13%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2020 Taxable Assessed Valuation	18.85%

Area of District – 757 Acres
Estimated 2020 Population – 4,242 (d)

- (a) Value includes \$321,684,662 of taxable value as certified by the Harris County Appraisal District (the "Appraisal District") and \$4,854,999 of uncertified value, representing the owner's opinion of value on properties in the District not yet certified for 2020, which totals \$326,539,661. See "TAX PROCEDURES."
- (b) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (c) See "ESTIMATED OVERLAPPING DEBT STATEMENT."
- (d) Based upon 3.5 persons per occupied single-family residence.

Cash and Investment Balances (unaudited as of January 19, 2021)

Operating Fund	Cash and Temporary Investments	\$2,586,057 (a)
Construction Fund	Cash and Temporary Investments	\$5,445,119 (b)
Debt Service Fund	Cash and Temporary Investments	\$1,793,684 (c)

- (a) Includes approximately \$39,317 that has been escrowed with the District by Meritage to ensure maintenance of certain detention bonds. It is anticipated that such funds will be refunded to Meritage.
- (b) Included in the Construction Fund Balance are approximately \$625,000 from the Series 2017 Bonds for the construction of the Wastewater Treatment Plant No. 1, approximately \$2,600,000 from the Series 2018 Bonds for facilities to serve the Park at Klein and approximately \$1,350,000 from the Series 2019 Bonds for facilities to serve the Park at Klein.
- (c) The District will contribute \$17,000 toward the Bonds. Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.

District Investment Policy

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

ESTIMATED OVERLAPPING DEBT STATEMENT

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,743,427,125	12/31/2020	0.06%	\$ 1,046,056
Harris County Flood Control District.....	334,270,000	12/31/2020	0.06%	200,562
Harris County Department of Education.....	20,185,000	12/31/2020	0.06%	12,111
Harris County Hospital District.....	86,050,000	12/31/2020	0.06%	51,630
Port of Houston Authority.....	492,439,397	12/31/2020	0.06%	295,464
Klein Independent School District.....	1,090,270,000	12/31/2020	1.30%	14,173,510
Lone Star College District.....	542,290,000	12/31/2020	1.14%	6,182,106
Total Estimated Overlapping Debt.....				\$ 21,961,439
The District.....	39,600,000 (a)	Current	100.00%	39,600,000
Total Direct and Estimated Overlapping Debt...				\$ 61,561,439
Ratio of Estimated Direct and Overlapping Debt to 2020 Taxable Assessed Valuation.....				18.85%

(a) After issuance of the Bonds.

Overlapping Taxes for 2020

	2020 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority.....	\$ 0.604193
Klein Independent School District.....	1.337300
Harris County ESD No. 7 (a).....	0.099700
Harris County ESD No. 11 (a).....	0.033334
Lone Star College System.....	0.107800
Total Overlapping Tax Rate.....	\$ 2.182327
The District.....	0.890000
Total Tax Rate.....	\$ 3.072327

(a) Harris County ESD No. 7 provides fire protection services and Harris County ESD No. 11 provides emergency medical services.

TAX DATA

Tax Collections

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

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of December 31, 2020 (a)	
				Amount	Percent
2015	\$ 159,734,400	\$ 0.9875	\$ 1,577,362	\$ 1,577,362	100.00%
2016	246,521,136	0.9875	2,434,390	2,434,390	100.00%
2017	279,190,265	0.9300	2,596,464	2,596,464	100.00%
2018	297,538,367	0.9100	2,707,594	2,707,593	100.00%
2019	316,154,903	0.9000	2,845,389	2,841,824	99.87%
2020	321,684,662	0.8900	2,745,714	(b)	(b)

(a) Unaudited collections.

(b) In process of collection. Taxes are due January 31, 2021.

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

Tax Rate Distribution

	2020	2019	2018	2017	2016
Debt Service	\$0.7850	\$0.7600	\$0.7600	\$0.7600	\$0.7300
Maintenance and Operations	0.1050	0.1400	0.1500	0.1700	0.2575
Total	\$0.8900	\$0.9000	\$0.9100	\$0.9300	\$0.9875

Tax Rate Limitations

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

Maintenance: \$0.50 per \$100 Assessed Valuation

Debt Service Tax

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

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Voters in the District have authorized the Board to levy such a maintenance tax in an amount not to exceed \$1.50 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Remaining Outstanding Bonds and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2020 in the amount of \$0.105 per \$100 assessed valuation.

Principal Taxpayers

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

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2020 Certified Taxable Assessed Valuation</u>	<u>% of 2020 Certified Taxable Assessed Valuation</u>
Centerpoint Energy Houston	Land and Personal Property	\$ 12,743,837	3.96%
Texas Petroleum Group LLC	Land and Improvements	4,566,413	1.42%
Tres Lago Development LLC	Land and Improvements	4,435,295	1.38%
Spring Oaks Investments LLC	Land and Improvements	2,638,512	0.82%
Individual	Land and Improvements	1,229,412	0.38%
Individual	Land and Improvements	1,167,000	0.36%
Individual	Land and Improvements	1,159,354	0.36%
Cannon Custom Homes Inc. (a)	Land and Improvements	1,142,433	0.36%
Individual	Land and Improvements	1,068,582	0.33%
Individual	Land and Improvements	999,496	0.31%
Total		\$ 31,150,334	9.68%

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

Summary of Assessed Valuation

The following breakdown of the 2016 through 2020 Taxable Assessed Valuations has been provided by the District's Tax Assessor/Collector based on information contained in the 2016 through 2020 tax rolls of the District. Differences in values from other information herein are due to differences in dates of information provided. A breakdown related to the uncertified portion of the 2020 Taxable Assessed Valuation is not available.

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 70,212,997	\$ 67,296,884	\$ 73,549,617	\$ 69,967,309	\$ 70,752,427
Improvements	265,824,561	265,236,901	245,657,130	228,740,955	194,738,037
Personal Property	12,997,924	13,667,242	9,712,436	9,679,019	9,347,007
Exemptions	(27,350,820)	(29,866,402)	(31,380,816)	(29,197,018)	(28,316,335)
Uncertified Value	4,854,999	-	-	-	-
Total	\$ 326,539,661	\$ 316,334,625	\$ 297,538,367	\$ 279,190,265	\$ 246,521,136

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2020 Taxable Assessed Valuation and no use of debt service funds on hand and utilize tax rates necessary to pay the District's average and maximum annual debt service requirement on the Bonds. See "INVESTMENT CONSIDERATIONS—Impact on District Tax Rates."

Average Annual Debt Service Requirement (2021-2043).....	\$2,413,878
\$0.78 Tax Rate on the 2020 Taxable Assessed Valuation at 95% collections.....	\$2,419,659
Maximum Annual Debt Service Requirement (2032).....	\$2,608,316
\$0.85 Tax Rate on the 2020 Taxable Assessed Valuation at 95% collections.....	\$2,636,808

TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2020 tax year, the District has granted an exemption of \$3,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of a member of (i) a member of the armed forces or, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

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

General Residential Homestead Exemption

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

Valuation of Property for Taxation

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

District and Taxpayer Remedies

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

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

Agricultural, Open Space, Timberland and Inventory Deferment

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

Tax Abatement

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

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a district has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified herein as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all land, improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below. Debt service and contract tax rates cannot be reduced by an election held within any of the districts described below.

Special Taxing Units

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

Developed Districts

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

Developing Districts

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

The District

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

[Remainder of page intentionally left blank]

WATER AND SEWER OPERATIONS

General

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. However, net revenues, if any, derived from operation of the District's water and sewer operations are not pledged to the payment of the Bonds but are available for any lawful purpose including the payment of debt service on the Bonds and the Remaining Outstanding Bonds, at the discretion and upon action of the Board. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds or the Remaining Outstanding Bonds.

Waterworks and Sewer System Operating Statement

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

	Fiscal Year Ended June 30				
	2020	2019	2018	2017	2016
Revenues					
Property Taxes	\$ 442,944	\$ 447,509	\$ 476,084	\$ 636,631	\$ 504,987
Water Service	382,856	380,674	335,084	381,362	334,687
Wastewater Service	325,325	327,612	257,508	298,393	267,616
Regional Water Authority Fee	507,031	457,415	458,757	371,971	266,291
Penalty and Interest	37,682	41,548	25,914	19,515	16,149
Tap Connection and Inspection Fees	13,715	15,995	140,229	175,993	233,362
Investment Revenues	56,658	48,646	20,157	8,109	3,887
Miscellaneous	12,878	22,056	13,612	29,830	20,536
Total Revenues	\$ 1,779,089	\$ 1,741,455	\$ 1,727,345	\$ 1,921,804	\$ 1,647,515
Expenditures					
Professional Fees	\$ 189,119	\$ 143,118	\$ 177,221	\$ 153,255	\$ 121,656
Contracted Services	357,843	317,592	263,643	238,759	241,587
Utilities	70,552	71,429	72,827	67,232	78,378
Regional Water Authority Assessment	473,993	419,411	364,215	364,812	262,528
Repairs and Maintenance	343,368	311,831	225,810	286,394	274,612
Other	236,864	182,083	206,526	186,557	278,152
Bond Issuance Costs	-	-	-	-	82,198
Capital Outlay	14,938	6,044	-	29,420	147,990
Total Expenditures	\$ 1,686,677	\$ 1,451,508	\$ 1,310,242	\$ 1,326,429	\$ 1,487,101
Revenues Over (Under) Expenditures	\$ 92,412	\$ 289,947	\$ 417,103	\$ 595,375	\$ 160,414
Other Sources (Uses)	\$ -	\$ -	\$ 42,000	\$ 82,198	\$ 9,871
Fund Balance (Beginning of Year)	\$ 2,672,175	\$ 2,382,228	\$ 1,923,125	\$ 1,245,552	\$ 1,075,267
Fund Balance (End of Year)	\$ 2,764,587	\$ 2,672,175	\$ 2,382,228	\$ 1,923,125	\$ 1,245,552

INVESTMENT CONSIDERATIONS

General

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

Infectious Disease Outbreak (COVID-19)

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

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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

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

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. The financial and operating data contained herein are the latest available but are as of dates and for periods partially prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition.

Potential Effects of Oil Price Declines on the Houston Area

The recent declines in oil prices in the U.S. and globally, which at times have led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. As previously stated, the Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

Extreme Weather Events: Hurricane Harvey

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

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

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

Specific Flood Type Risks

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

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

Economic Factors and Interest Rates

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

Competition

The demand for and construction of single-family homes in the District, which is approximately 24 miles from downtown Houston, could be affected by competition from other residential developments in the northern portion of the Houston area market. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

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

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their ad valorem taxes. The 2020 Taxable Assessed Valuation of the District is \$326,539,661. After issuance of the Bonds, the maximum annual debt service requirement will be \$2,608,316 (2032) and the average annual debt service requirement will be \$2,413,878 (2021-2043). Assuming no increase or decrease from the 2020 Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.85 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$2,608,316 and a tax rate of \$0.78 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$2,413,878. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds based upon the 2020 Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event major taxpayers do not pay their District taxes timely. Any increase in taxable values depends on the continuing construction and sale of homes and other taxable improvements within the District. See "TAX PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$14,600,000 in principal amount of authorized but unissued unlimited tax bonds solely for purchasing, constructing, acquiring, owning, operating, repairing, improving or extending a water, sanitary sewer and drainage system for the District, the \$75,000,000 principal amount of unlimited tax bonds authorized but unissued for either said improvements and facilities or refunding outstanding bonds, the \$8,300,000 in principal amount of authorized but unissued unlimited tax bonds for parks and recreational facilities, the \$14,600,000 in principal amount of authorized but unissued unlimited tax bonds for road facilities, and the \$7,550,000 in principal amount of authorized but unissued unlimited tax bonds for the sole purpose of refunding the outstanding bonds of the District and any additional bonds which may be voted hereafter. See "THE BONDS—Issuance of Additional Debt," "Financing Road Facilities," and "Financing Parks and Recreational Facilities." The issuance of such future obligations may adversely affect the investment security of the Bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt." The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board and any bonds issued to acquire or construct drainage facilities or recreational facilities must be approved by the Commission. The Engineer has stated that the District's authorized but unissued bonds will be adequate to complete the development of the District.

Environmental Regulations

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston Galveston 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).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for 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 adopted the HGB Redesignation Request and Maintenance Plan for the One-Hour and 1997 Eight-Hour Ozone Standards SIP Revision on December 12, 2018. The SIP revision was submitted to the EPA on December 14, 2018 and includes a request that the HGB area be formally redesignated to attainment for the 1997 eight-hour ozone NAAQS. On May 16, 2019, the EPA proposed: a determination that the HGB area has met redesignation criteria and is continuing to attain the one-hour and 1997 eight-hour ozone NAAQS; termination of the anti-backsliding obligations; and approval of the maintenance plan (84 FR 22093).

The HGB area is currently designated as a “serious” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2021. 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 municipal utility districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

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

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

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

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

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

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal 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 became 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.

Tax Collections Limitations

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

Registered Owners' Remedies

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

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

Bankruptcy Limitation to Registered Owners' Rights

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

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

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

The District may not be placed into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

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

Marketability

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

Future and Proposed Legislation

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment.

MUNICIPAL BOND RATING

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

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

MUNICIPAL BOND INSURANCE

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 October 29, 2020, 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 July 16, 2020, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

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

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

Capitalization of AGM

At September 30, 2020:

- The policyholders' surplus of AGM was approximately \$2,671 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,042 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,111 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 subsidiaries Assured Guaranty (Europe) plc ("AGE UK") and Assured Guaranty (Europe) SA ("AGE SA"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020);
- (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); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 (filed by AGL with the SEC on August 7, 2020).
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020 (filed by AGL with the SEC on November 6, 2020).

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

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

Miscellaneous Matters

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

LEGAL MATTERS

Legal Opinions

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

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

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

Legal Review

In its capacity as Bond Counsel, Marks Richardson PC, has reviewed the information appearing in this Official Statement under the captioned sections “PLAN OF FINANCING – Payment of Refunded Bonds” (but only insofar as such section relates to the legal opinion of Bond Counsel), “THE BONDS,” “THE DISTRICT – General” and “MANAGEMENT- Bond Counsel and General Counsel,” “TAX PROCEDURES,” “LEGAL MATTERS – Legal Opinions” (but only insofar as such section relates to the opinion of Bond Counsel) solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor have such firms conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms’ limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Tax Exemption

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

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

Except as stated above, Bond Counsel will express no opinion as to any federal, state, or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds. The law upon which Bond Counsel has based its opinion is subject to change by the Congress, administrative interpretation by the Department of the Treasury and to subsequent judicial interpretation. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

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

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain “S” Corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. These categories of prospective purchasers should consult their tax advisors as to the applicability of these consequences.

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

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

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

Qualified Tax-Exempt Obligations

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

The District has designated the Bonds as “qualified tax-exempt obligations” as it reasonably anticipates that it will not issue more than \$10,000,000 in tax-exempt obligations in 2021. Furthermore, the District has represented that it has or will take such action as is necessary for the Bonds to constitute “qualified tax-exempt obligations.” Notwithstanding the designation of the Bonds as “qualified tax-exempt obligations,” financial institutions acquiring the Bonds will be subject to a 20% disallowance of interest expense allocable to the Bonds.

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Premium Bonds

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

VERIFICATION OF MATHEMATICAL CALCULATIONS

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

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

NO MATERIAL ADVERSE CHANGE

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

NO-LITIGATION CERTIFICATE

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

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

Underwriter

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

Consultants

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

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

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

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

Auditor: The financial statements of the District, as of June 30, 2020, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's June 30, 2020 audited financial statements.

UPDATING THE OFFICIAL STATEMENT

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

CERTIFICATION OF OFFICIAL STATEMENT

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "FINANCIAL STATEMENT (excluding Overlapping Debt)," "TAX DATA," "THE SYSTEM," and in Appendix A (Financial Statements of the District and Certain Supplemental Schedules). The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2021. Any financial statements concerning the District so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation and audited if the audit report is completed within the period during which it must be provided. If the audit report of the District is not completed within such period, then the District shall provide unaudited financial statements for the applicable entity and fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

Specified Event Notices

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

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

Limitations and Amendments

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

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

Compliance With Prior Undertakings

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Encanto Real Utility District as of the date shown on the cover page.

/s/ Bruce D. Burkhardt
President, Board of Directors

ATTEST:

/s/ Phil Knox
Secretary, Board of Directors

APPENDIX A

**Independent Auditor's Report and Financial Statements of the District
for the year ended June 30, 2020**

ENCANTO REAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2020

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

ENCANTO REAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2020

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	8-11
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	12
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	13-14
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	15
NOTES TO THE FINANCIAL STATEMENTS	16-30
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND	32
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	34-36
GENERAL FUND EXPENDITURES	37-38
INVESTMENTS	39
TAXES LEVIED AND RECEIVABLE	40-41
LONG-TERM DEBT SERVICE REQUIREMENTS	42-50
CHANGE IN LONG-TERM BOND DEBT	51-52
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	53-56
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	57-58

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708

P. O. Box 29584
Austin, Texas 78755-5126
(512) 610-2209
E-Mail: mgsb@mgsbpllc.com
www.mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Encanto Real Utility District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Encanto Real Utility District (the "District"), as of and for the year ended June 30, 2020, 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 June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

October 20, 2020

**ENCANTO REAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

Management's discussion and analysis of Encanto Real Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position includes all of the District's assets and liabilities, 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.

**ENCANTO REAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

FUND FINANCIAL STATEMENTS

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

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") and other supplementary information. A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$3,802,151 as of June 30, 2020. A portion of the District's net position reflects its net investment in capital assets (water and wastewater facilities less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services.

**ENCANTO REAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following is a comparative analysis of the Statement of Net Position as of June 30, 2020, and June 30, 2019:

	Summary of Changes in the Statement of Net Position		
	2020	2019	Change Positive (Negative)
Current and Other Assets	\$ 11,625,655	\$ 12,282,170	\$ (656,515)
Capital Assets (Net of Accumulated Depreciation)	<u>29,096,621</u>	<u>26,300,078</u>	<u>2,796,543</u>
Total Assets	<u>\$ 40,722,276</u>	<u>\$ 38,582,248</u>	<u>\$ 2,140,028</u>
Due to Developer	\$ 3,806,948	\$ 4,057,485	\$ 250,537
Long -Term Liabilities	39,620,412	38,210,000	(1,410,412)
Other Liabilities	<u>1,097,067</u>	<u>435,186</u>	<u>(661,881)</u>
Total Liabilities	<u>\$ 44,524,427</u>	<u>\$ 42,702,671</u>	<u>\$ (1,821,756)</u>
Net Position:			
Net Investment in Capital Assets	\$ (8,753,641)	\$ (9,042,213)	\$ 288,572
Restricted	2,181,345	2,244,069	(62,724)
Unrestricted	<u>2,770,145</u>	<u>2,677,721</u>	<u>92,424</u>
Total Net Position	<u>\$ (3,802,151)</u>	<u>\$ (4,120,423)</u>	<u>\$ 318,272</u>

The District's net position increased by \$318,272. The following table provides a comparative analysis of the District's operations for the years ended June 30, 2020, and June 30, 2019.

	Summary of Changes in the Statement of Activities		
	2020	2019	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,847,677	\$ 2,716,318	\$ 131,359
Charges for Services	1,288,802	1,242,094	46,708
Other Revenues	<u>237,937</u>	<u>272,361</u>	<u>(34,424)</u>
Total Revenues	<u>\$ 4,374,416</u>	<u>\$ 4,230,773</u>	<u>\$ 143,643</u>
Expenses for Services	<u>4,056,144</u>	<u>4,055,787</u>	<u>(357)</u>
Change in Net Position	\$ 318,272	\$ 174,986	\$ 143,286
Net Position, Beginning of Year	<u>(4,120,423)</u>	<u>(4,295,409)</u>	<u>174,986</u>
Net Position, End of Year	<u>\$ (3,802,151)</u>	<u>\$ (4,120,423)</u>	<u>\$ 318,272</u>

**ENCANTO REAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2020, totaled \$10,693,235, an decrease of \$1,248,266 from the prior year.

The General Fund fund balance increased by \$92,412, primarily due to service and tax revenues exceeding operating costs.

The Debt Service Fund fund balance decreased by \$60,507, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$1,280,171, primarily due to capital expenditures for the wastewater treatment plant expansion.

BUDGETARY HIGHLIGHTS

In the General Fund, actual revenues were \$103,494 more than budgeted revenues primarily due to higher than anticipated property tax revenues. Actual expenditures were \$163,835 more than budgeted expenditures primarily due to higher than anticipated repair and maintenance and other expenditures. Other financing sources were \$53,563 less than budgeted primarily due to lower than anticipated transfers.

CAPITAL ASSETS

Capital assets totaled \$29,096,621 as of June 30, 2020, and included land and land improvements, construction in progress, equipment, parks and recreation and the water, wastewater and detention systems. Capital asset activity during the current year included additions for Water Well No. 2 at Water Plant No. 1, wastewater treatment plant expansion, detention land site for McKenzie Park Phase I and drainage and detention facilities for the Park at Klein.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2020	2019	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 3,859,371	\$ 3,304,450	\$ 554,921
Construction in Progress	4,644,665	3,949,471	695,194
Capital Assets, Net of Accumulated Depreciation:			
Water System	7,734,324	6,621,452	1,112,872
Wastewater System	7,443,972	7,551,374	(107,402)
Equipment	62,004	67,538	(5,534)
Detention	5,087,631	4,534,984	552,647
Parks and Recreation	264,654	270,809	(6,155)
Total Net Capital Assets	\$ 29,096,621	\$ 26,300,078	\$ 2,796,543

**ENCANTO REAL UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

LONG-TERM DEBT ACTIVITY

As of June 30, 2020, the District had total bond debt payable of \$39,605,000. The changes in the debt position of the District during the fiscal year ended June 30, 2020, are summarized as follows:

Bond Debt Payable, July 1, 2019	\$ 38,210,000
Add: Bond Sale - Series 2019	2,640,000
Less: Bond Principal Paid	<u>1,245,000</u>
Bond Debt Payable, June 30, 2020	<u>\$ 39,605,000</u>

The District’s Series 2012 Refunding Bonds are not rated. The Series 2006 Bonds have an insured rating of “AA” by virtue of bond insurance issued by Assured Guaranty Corporation. The Series 2015 Bonds, Series 2015A Bonds and Series 2019 Bonds have an underling rating of “Baa1” and carry an insured rating of “AA” by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2016 and 2017 Bonds have an underlying rating of “Baa1”. The Series 2018 Bonds have an underlying rating of “Baa1” and carry an insured rating of “AA” by virtue of bond insurance issued by Build America Mutual Assurance Company. The above rating reflects all rating changes through fiscal year end.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The adopted budget for fiscal year ending June 30, 2021 projects a decrease of \$600,122 to the General Fund fund balance. Revenue is expected to be \$1,660,349 and expenditures are expected to be \$2,260,471.

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 Encanto Real Utility District, c/o Marks Richardson PC, 3700 Buffalo Speedway, Suite 830, Houston, TX 77098.

**ENCANTO REAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2020**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 145,904	\$ 140,724
Investments	2,657,635	2,209,818
Receivables:		
Property Taxes	5,558	30,173
Penalty and Interest on Delinquent Taxes		
Service Accounts	137,754	
Accrued Interest	23,570	10,214
Due from Other Funds	6,822	
Prepaid Costs	53,935	
Capital Assets (Net of Accumulated Depreciation):		
Land		
Construction in Progress		
Water and Wastewater Systems		
Equipment		
Detention		
Parks and Recreation		
TOTAL ASSETS	\$ 3,031,178	\$ 2,390,929

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 100	\$ 286,728	\$	\$ 286,728
6,205,106	11,072,559		11,072,559
	35,731		35,731
		5,164	5,164
	137,754		137,754
	33,784		33,784
	6,822	(6,822)	
	53,935		53,935
		3,859,371	3,859,371
		4,644,665	4,644,665
		15,178,296	15,178,296
		62,004	62,004
		5,087,631	5,087,631
		264,654	264,654
<u>\$ 6,205,206</u>	<u>\$ 11,627,313</u>	<u>\$ 29,094,963</u>	<u>\$ 40,722,276</u>

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

**ENCANTO REAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2020**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 179,685	\$
Retainage Payable		
Accrued Interest Payable		
Due to Developers	1,448	
Due to Other Funds		6,822
Due to Taxpayers		936
Security Deposits	79,900	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 261,033	\$ 7,758
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 5,558	\$ 30,173
FUND BALANCES		
Nonspendable -		
Prepaid Costs	\$ 53,935	\$
Restricted for Authorized Construction		
Restricted for Debt Service		2,352,998
Assigned for 2021 Budget Deficit	600,122	
Unassigned	2,110,530	
TOTAL FUND BALANCES	\$ 2,764,587	\$ 2,352,998
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,031,178	\$ 2,390,929
NET POSITION		
Net Investment in Capital Assets		
Restricted Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 477,210	\$ 656,895	\$	\$ 656,895
152,346	152,346		152,346
		206,990	206,990
	1,448	3,805,500	3,806,948
	6,822	(6,822)	
	936		936
	79,900		79,900
		1,250,000	1,250,000
		38,370,412	38,370,412
<u>\$ 629,556</u>	<u>\$ 898,347</u>	<u>\$ 43,626,080</u>	<u>\$ 44,524,427</u>
<u>\$ -0-</u>	<u>\$ 35,731</u>	<u>\$ (35,731)</u>	<u>\$ -0-</u>
	\$ 53,935	\$ (53,935)	\$
5,575,650	5,575,650	(5,575,650)	
	2,352,998	(2,352,998)	
	600,122	(600,122)	
	2,110,530	(2,110,530)	
<u>\$ 5,575,650</u>	<u>\$ 10,693,235</u>	<u>\$ (10,693,235)</u>	<u>\$ - 0 -</u>
<u>\$ 6,205,206</u>	<u>\$ 11,627,313</u>		
		\$ (8,753,641)	\$ (8,753,641)
		2,181,345	2,181,345
		2,770,145	2,770,145
		<u>\$ (3,802,151)</u>	<u>\$ (3,802,151)</u>

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

**ENCANTO REAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020**

Total Fund Balances - Governmental Funds \$ 10,693,235

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 29,096,621

Deferred inflows of resources related to property tax revenues and uncollected penalty and interest revenues on delinquent taxes for the 2019 and prior tax levies became part of recognized revenue in the governmental activities of the District. 40,895

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (3,805,500)	
Accrued Interest Payable	(206,990)	
Bonds Payable	<u>(39,620,412)</u>	<u>(43,632,902)</u>

Total Net Position - Governmental Activities \$ (3,802,151)

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

THIS PAGE INTENTIONALLY LEFT BLANK

ENCANTO REAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 442,944	\$ 2,400,359
Water Service	382,856	
Wastewater Service	325,325	
Regional Water Authority Fees	507,031	
Penalty and Interest	37,682	21,067
Tap Connection and Inspection Fees	13,715	
Investment Revenues	56,658	52,322
Miscellaneous Revenues	12,878	441
TOTAL REVENUES	\$ 1,779,089	\$ 2,474,189
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 189,119	\$ 7,523
Contracted Services	357,843	38,244
Utilities	70,552	
Regional Water Authority Assessment	473,993	
Repairs and Maintenance	343,368	
Depreciation		
Other	236,864	7,775
Prior Year Operating Costs		
Developer Interest		
Capital Outlay	14,938	
Debt Service:		
Bond Principal		1,245,000
Bond Interest		1,236,154
Bond Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	\$ 1,686,677	\$ 2,534,696
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	\$ 92,412	\$ (60,507)
OTHER FINANCING SOURCES		
Long-Term Debt Issued	\$ -0-	\$ -0-
Premium on Sale of Bonds		
TOTAL OTHER FINANCING SOURCES	\$ -0-	\$ -0-
NET CHANGE IN FUND BALANCES	\$ 92,412	\$ (60,507)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JULY 1, 2019	2,672,175	2,413,505
FUND BALANCES/NET POSITION - JUNE 30, 2020	\$ 2,764,587	\$ 2,352,998

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 2,843,303	\$ 4,374	\$ 2,847,677
	382,856		382,856
	325,325		325,325
	507,031		507,031
	58,749	1,126	59,875
	13,715		13,715
115,638	224,618		224,618
	13,319		13,319
<u>\$ 115,638</u>	<u>\$ 4,368,916</u>	<u>\$ 5,500</u>	<u>\$ 4,374,416</u>
\$	\$ 196,642	\$	\$ 196,642
1,393	397,480		397,480
	70,552		70,552
	473,993		473,993
	343,368		343,368
		562,021	562,021
72	244,711		244,711
129,588	129,588		129,588
114,221	114,221		114,221
3,526,238	3,541,176	(3,541,176)	
	1,245,000	(1,245,000)	
	1,236,154	7,230	1,243,384
280,184	280,184		280,184
<u>\$ 4,051,696</u>	<u>\$ 8,273,069</u>	<u>\$ (4,216,925)</u>	<u>\$ 4,056,144</u>
<u>\$ (3,936,058)</u>	<u>\$ (3,904,153)</u>	<u>\$ 4,222,425</u>	<u>\$ 318,272</u>
\$ 2,640,000	\$ 2,640,000	\$ (2,640,000)	\$ -0-
15,887	15,887	(15,887)	
<u>\$ 2,655,887</u>	<u>\$ 2,655,887</u>	<u>\$ (2,655,887)</u>	<u>\$ -0-</u>
\$ (1,280,171)	\$ (1,248,266)	\$ 1,248,266	\$
		318,272	318,272
<u>6,855,821</u>	<u>11,941,501</u>	<u>(16,061,924)</u>	<u>(4,120,423)</u>
<u>\$ 5,575,650</u>	<u>\$ 10,693,235</u>	<u>\$ (14,495,386)</u>	<u>\$ (3,802,151)</u>

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

**ENCANTO REAL 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 JUNE 30, 2020**

Net Change in Fund Balances - Governmental Funds \$ (1,248,266)

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.	4,374
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	1,126
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.	(562,021)
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.	3,541,176
Governmental funds report bond discounts and bond premiums as other financing sources/uses in the year paid. However, in the Statement of Net Position, the bond discounts and bond premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.	(15,412)
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.	1,245,000
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.	(7,705)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.	<u>(2,640,000)</u>
Change in Net Position - Governmental Activities	<u>\$ 318,272</u>

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

**ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1. CREATION OF DISTRICT

Encanto Real Utility District (the “District”), located in Harris County, Texas, was created effective June 4, 1971, by an Order of the Texas Water Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, and to construct parks and recreational facilities for the residents of the District. The Board of Directors held its first meeting on February 22, 1972, and the first bonds were sold on June 5, 1973.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

When both restricted and unrestricted resources are available for use, generally it's 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 to obtain net total revenues and expenses of the government-wide Statement of Activities.

**ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

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

**ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as an other financing source 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 June 30, 2020, the Debt Service Fund owes the General Fund \$6,822 for maintenance tax collections.

Service Accounts Receivable

The District provides for uncollectible accounts receivable through the allowance method of accounting. Under this method a provision for uncollectible accounts is charged to bad debt expense, and the allowance account is increased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the account. At June 30, 2020, the District had no allowance for doubtful accounts.

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

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	3-20

**ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Pensions

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

Measurement Focus

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

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

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

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

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

ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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. The District has \$600,122 assigned fund balance to cover the fiscal year 2021 budget deficit.

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.

Recently Issued Accounting Pronouncements

In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, the purpose of which is (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Under GASB Statement No. 89, the cost of assets capitalized and depreciated will no longer include an interest component. Developer interest will instead be shown separately as an expenditure in the fund it was paid from (not combined with capital outlay) and as an expense in the government-wide financial statements. GASB Statement No. 89 is effective for fiscal years beginning after December 15, 2019, though early application is encouraged, and the requirements of this standard are to be applied prospectively. Management has chosen to early implement GASB Statement No. 89 as of and for the fiscal year ended June 30, 2020.

ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3. LONG-TERM DEBT

	Series 2006	Refunding Series 2012	Series 2015	Series 2015A
Amount Outstanding - June 30, 2020	\$ 755,000	\$ 1,150,000	\$ 2,860,000	\$ 6,350,000
Interest Rates	4.40% - 4.60%	3.00% - 3.80%	3.25% - 5.00%	2.00% - 4.00%
Maturity Dates -Serially Beginning/Ending	May 1, 2021/2028	May 1, 2021/2028	May 1, 2029/2040	May 1, 2021/2041
Interest Payment Dates	November 1 / May 1	November 1 /May 1	November 1 / May 1	November 1 / May 1
Callable Dates	May 1, 2015*	May 1, 2020*	May 1, 2023*	May 1, 2023*
	Series 2016	Series 2017	Series 2018	Series 2019
Amount Outstanding - June 30, 2020	\$ 8,300,000	\$ 8,400,000	\$ 9,150,000	\$ 2,640,000
Interest Rates	2.00% - 3.00%	2.00% - 3.50%	2.25% - 3.75%	2.00% - 4.00%
Maturity Dates - Serially Beginning/Ending	May 1, 2021/2041	May 1, 2021/2042	May 1, 2021/2043	May 1, 2022/2043
Interest Payment Dates	November 1 / May 1	November 1 / May 1	November 1 /May 1	November 1 /May 1
Callable Dates	May 1, 2024*	May 1, 2024*	May 1, 2024*	May 1, 2025*

* Or on any date thereafter, at a price of par, plus accrued interest to the date of redemption. The Series 2006 term bonds maturing May 1, 2022, May 1, 2025, and May 1, 2028, are subject to mandatory redemption on May 1, 2020, May 1, 2023, and May 1, 2026, respectively. Series 2012 refunding term bonds maturing on May 1, 2028, are subject to mandatory redemption beginning May 1, 2027. Series 2015A term bonds maturing on May 1, 2026, May 1, 2028, May 1, 2030, May 1, 2039, and May 1, 2041, are subject to mandatory redemption on May 1, 2025, May 1, 2027, May 1, 2029, May 1, 2037, and May 1, 2040, respectively. Series 2019 term bonds maturing on May 1, 2032, May 1, 2035, May 1, 2038, and May 1, 2041, are subject to mandatory redemption on May 1, 2030, May 1, 2033, May 1, 2036, and May 1, 2039, respectively.

**ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2020:

	July 1, 2019	Additions	Retirements	June 30, 2020
Bonds Payable	\$ 38,210,000	\$ 2,640,000	\$ 1,245,000	\$ 39,605,000
Unamortized Premiums		15,887	475	15,412
Bonds Payable	\$ 38,210,000	\$ 2,655,887	\$ 1,245,475	\$ 39,620,412
		Amount Due Within One Year		\$ 1,250,000
		Amount Due After One Year		38,370,412
		Bonds Payable		\$ 39,620,412

On October 17, 2019, the District issued \$2,640,000 of Unlimited Tax Bonds, Series 2019, with interest rates ranging from 2.00% to 4.00%. The net proceeds of \$2,416,443 (after payment of underwriter fees and other bond related costs) were deposited with the District's investment accounts to reimburse developers for construction costs and to pay for accrued bond interest and bond issuance costs.

As of June 30, 2020, the District has authorized but unissued tax bonds in the amount of \$88,650,000, authorized but unissued park bonds in the amount of \$8,300,000, authorized but unissued road bonds in the amount of \$14,600,000 and available refunding bonds authorization of \$7,550,000.

As of June 30, 2020, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2021	\$ 1,250,000	\$ 1,242,063	\$ 2,492,063
2022	1,360,000	1,213,137	2,573,137
2023	1,395,000	1,178,396	2,573,396
2024	1,405,000	1,139,309	2,544,309
2025	1,465,000	1,099,624	2,564,624
2026-2030	7,785,000	4,850,628	12,635,628
2031-2035	9,360,000	3,587,923	12,947,923
2036-2040	10,295,000	2,020,675	12,315,675
2041-2043	5,290,000	339,726	5,629,726
	\$ 39,605,000	\$ 16,671,481	\$ 56,276,481

ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3. LONG-TERM DEBT (Continued)

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 the Series 2006 bonds are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

During the year ended June 30, 2020, the District levied an ad valorem debt service tax rate of \$0.76 per \$100 of assessed valuation, which resulted in a tax levy of \$2,404,170 on the adjusted taxable valuation of \$316,338,668 for the 2019 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. See Note 7 for the maintenance tax levy.

All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that so long as any of the bonds or coupons remain outstanding, the District covenants that it will at all times keep insured such parts of the system as are usually insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents, or casualties against which and to the extent insurance is usually carried by such municipal corporations and political subdivisions; provided, however, that at any time while any contractor engaged in such insurance.

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of annual financial information and operating data to the Municipal Securities Rulemaking Board. This information is of the general type included in the annual audit report. It 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.

**ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits was \$3,846,728 and the bank balance was \$3,925,483. The entire bank balance was covered by federal depository insurance.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2020, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 145,904	\$ 2,120,000	\$ 2,265,904
DEBT SERVICE FUND	140,724	1,440,000	1,580,724
CAPITAL PROJECTS FUND	100		100
TOTAL DEPOSITS	\$ 286,728	\$ 3,560,000	\$ 3,846,728

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.

**ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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 Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool’s administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. Wells Fargo Bank, N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. 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 Texas CLASS.

As of June 30, 2020, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities - Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 537,635	\$ 537,635
Certificates of Deposit	2,120,000	2,120,000
<u>DEBT SERVICE FUND</u>		
Texas CLASS	769,818	769,818
Certificates of Deposit	1,440,000	1,440,000
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	6,205,106	6,205,106
TOTAL INVESTMENTS	\$ 11,072,559	\$ 11,072,559

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage. As of June 30, 2020, the District’s investments in Texas CLASS were rated “AAAm” by Standard and Poor’s.

**ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages interest rate risk by investing in certificates of deposit with maturities of less than one year. The District considers the investments in Texas CLASS to have a maturity 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 has been a significant change of value.

Restrictions

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

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020:

	July 1, 2019	Increases	Decreases	June 30, 2020
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 3,304,450	\$ 554,921	\$	\$ 3,859,371
Construction in Progress	3,949,471	2,005,580	1,310,386	4,644,665
Total Capital Assets Not Being Depreciated	<u>\$ 7,253,921</u>	<u>\$ 2,560,501</u>	<u>\$ 1,310,386</u>	<u>\$ 8,504,036</u>
Capital Assets Subject to Depreciation				
Water System	\$ 7,630,849	\$ 1,310,386	\$	\$ 8,941,235
Wastewater System	9,230,130	121,634		9,351,764
Equipment	114,027			114,027
Detention	4,893,775	676,429		5,570,204
Parks and Recreation	276,964			276,964
Total Capital Assets Subject to Depreciation	<u>\$ 22,145,745</u>	<u>\$ 2,108,449</u>	<u>\$ - 0 -</u>	<u>\$ 24,254,194</u>
Accumulated Depreciation				
Water System	\$ 1,009,397	\$ 197,514	\$	\$ 1,206,911
Wastewater System	1,678,756	229,036		1,907,792
Equipment	46,489	5,534		52,023
Detention	358,791	123,782		482,573
Parks and Recreation	6,155	6,155		12,310
Total Accumulated Depreciation	<u>\$ 3,099,588</u>	<u>\$ 562,021</u>	<u>\$ - 0 -</u>	<u>\$ 3,661,609</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 19,046,157</u>	<u>\$ 1,546,428</u>	<u>\$ - 0 -</u>	<u>\$ 20,592,585</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 26,300,078</u>	<u>\$ 4,106,929</u>	<u>\$ 1,310,386</u>	<u>\$ 29,096,621</u>

The District has financed drainage facilities which have been conveyed to other entities for maintenance. During fiscal year 2020, no capital assets were conveyed.

**ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 7. MAINTENANCE TAX

On August 14, 1976, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.50 per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended June 30, 2020, the District levied an ad valorem maintenance tax rate of \$0.14 per \$100 of assessed valuation, which resulted in a tax levy of \$442,873 on the adjusted taxable valuation of \$316,338,668 for the 2019 tax year. The taxes are to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater systems.

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 was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the "Act"), as passed by the seventy-fifth Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater and for the reduction of groundwater withdrawals. The Authority has entered into a contract for purchase of surface water from the City of Houston, Texas to assure that its participants comply with the Harris-Galveston Subsidence District ("HGSD") pumpage requirements, which mandate that districts within HGSD boundaries, including the District, convert a percentage of its water use to surface water by certain established intervals.

The Authority currently charges a fee based on the amount of water pumped from a well to the owner of wells located within the boundaries of the Authority. This fee enables the Authority to operate and to finance its capital improvements to provide surface water to portions of its service area. The fee as of June 30, 2020 charged by the Authority is \$3.85 per 1,000 gallons of water pumped. Pumpage fees paid for the year ended June 30, 2020, were \$473,993.

NOTE 9. RISK MANAGEMENT

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

**ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 10. EMERGENCY WATER SUPPLY AGREEMENTS

On September 24, 1985, the District entered into an agreement with Northampton Municipal Utility District (“Northampton”) to provide emergency water supply services. All necessary costs of constructing the interconnect, including a two-way meter for the purpose of measuring the water provided, shall be borne by the District. Each district is responsible for maintaining the respective interconnect lines within their boundaries. The agreement was amended on August 21, 2000, and December 20, 2011. The charge for service to either district is \$1.25 per thousand gallons of water delivered plus the North Harris County Regional Water Authority pumpage fee. The agreement shall be in force until September 24, 2020.

NOTE 11. LAW ENFORCEMENT AGREEMENT

The District has entered into Agreement for Law Enforcement Services (the “Agreement”) with Harris County (the “County”). The County agrees to provide three Constable Precinct Four deputies to devote 70 percent of their working time to provide law enforcement services within the District’s geographical area, as further defined in Exhibit A of the Agreement. For the period March 1, 2019 to February 29, 2020, the District agreed to pay the County \$17,291 monthly except for the last month which is \$17,294. For the period March 1, 2020 to February 28, 2021, the District agreed to pay the County \$18,138 monthly except for the last month which is \$18,141. For the year ended June 30, 2020, the District recognized \$211,056 in security expense related to this agreement.

NOTE 12. UNREIMBURSED COSTS

The District has executed development financing agreements with Developers within the District. The agreements call for the Developers to fund costs associated with water, sewer and drainage facilities until such time as the District can sell bonds. As of June 30, 2020, Developers within the District indicated that approximately \$3,805,500 had been expended on behalf of the District in accordance with the financing agreements on completed projects. These liabilities have been recorded in the Statement of Net Position for these projects and reimbursement is contingent upon approval from the Commission and future sale of bonds. The following is a summary of activity for due to developers liability:

Due to Developers, July 1, 2019	\$ 3,988,112
Add - Amounts Owed	1,850,358
Less - Payments	<u>2,032,970</u>
Due to Developers, June 30, 2020	<u>\$ 3,805,500</u>

ENCANTO REAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 13. USE OF SURPLUS FUNDS

On February 18, 2020, the Board of Directors of the District approved a resolution authorizing the use of \$253,287 in surplus construction funds from the previously issued Series 2015 bonds to pay for the costs associated with the purchase of a draft aerator stripping tower at Water Plant No. 1. During fiscal year 2020, the District recognized \$50,657 related to this project in construction in progress on the balance sheet.

NOTE 14. UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. As a result, economic uncertainties have arisen which could have an impact on the operations of the District. The District is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty, as the potential financial impact of this pandemic is unknown at this time.

THIS PAGE INTENTIONALLY LEFT BLANK

ENCANTO REAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020

ENCANTO REAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 310,660	\$ 442,944	\$ 132,284
Water Service	399,500	382,856	(16,644)
Wastewater Service	340,900	325,325	(15,575)
Regional Water Authority Fees	505,000	507,031	2,031
Penalty and Interest	44,200	37,682	(6,518)
Tap Connection and Inspection Fees	21,000	13,715	(7,285)
Investment Revenues	40,325	56,658	16,333
Miscellaneous Revenues	14,010	12,878	(1,132)
TOTAL REVENUES	<u>\$ 1,675,595</u>	<u>\$ 1,779,089</u>	<u>\$ 103,494</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 164,000	\$ 189,119	\$ (25,119)
Contracted Services	321,592	357,843	(36,251)
Utilities	73,400	70,552	2,848
Regional Water Authority Assessment	505,000	473,993	31,007
Repairs and Maintenance	265,700	343,368	(77,668)
Other	193,150	236,864	(43,714)
Capital Outlay	_____	14,938	(14,938)
TOTAL EXPENDITURES	<u>\$ 1,522,842</u>	<u>\$ 1,686,677</u>	<u>\$ (163,835)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 152,753</u>	<u>\$ 92,412</u>	<u>\$ (60,341)</u>
OTHER FINANCING SOURCES			
Transfers In	<u>\$ 53,563</u>	<u>\$ _____</u>	<u>\$ (53,563)</u>
NET CHANGE IN FUND BALANCE	\$ 206,316	\$ 92,412	\$ (113,904)
FUND BALANCE - JULY 1, 2019	<u>2,672,175</u>	<u>2,672,175</u>	<u>_____</u>
FUND BALANCE - JUNE 30, 2020	<u>\$ 2,878,491</u>	<u>\$ 2,764,587</u>	<u>\$ (113,904)</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

ENCANTO REAL UTILITY DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
JUNE 30, 2020

**ENCANTO REAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2020**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤ ³ / ₄ "	<u>1,100</u>	<u>1,093</u>	x 1.0	<u>1,093</u>
1"	<u>151</u>	<u>149</u>	x 2.5	<u>373</u>
1½"	_____	_____	x 5.0	_____
2"	<u>22</u>	<u>22</u>	x 8.0	<u>176</u>
3"	_____	_____	x 15.0	_____
4"	<u>2</u>	<u>2</u>	x 25.0	<u>50</u>
6"	_____	_____	x 50.0	_____
8"	<u>4</u>	<u>4</u>	x 80.0	<u>320</u>
10"	_____	_____	x 115.0	_____
Total Water Connections	<u><u>1,279</u></u>	<u><u>1,270</u></u>		<u><u>2,012</u></u>
Total Wastewater Connections	<u><u>1,235</u></u>	<u><u>1,226</u></u>	x 1.0	<u><u>1,226</u></u>

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

Gallons pumped into system:	135,589,000	Water Accountability Ratio: 88.4% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	120,132,000	
Gallons purchased:	331,000	From: Northampton MUD

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2020**

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.

**ENCANTO REAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2020**

PROFESSIONAL FEES:	
Auditing	\$ 14,250
Engineering	96,502
Legal	<u>78,367</u>
TOTAL PROFESSIONAL FEES	<u>\$ 189,119</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 28,039
Operations and Billing	91,333
Other Contracted Services	<u>26,815</u>
TOTAL CONTRACTED SERVICES	<u>\$ 146,187</u>
UTILITIES:	
Electricity	\$ 64,650
Telephone	<u>5,902</u>
TOTAL UTILITIES	<u>\$ 70,552</u>
REPAIRS AND MAINTENANCE	<u>\$ 343,368</u>
ADMINISTRATIVE EXPENDITURES:	
Consumer Confidence Report	\$ 4,563
Director Fees	8,700
Election Costs	38,530
Insurance	22,935
Office Supplies and Postage	18,237
Payroll Taxes	666
Travel and Meetings	386
Other	<u>467</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 94,484</u>
CAPITAL OUTLAY -	
Capitalized Assets	<u>\$ 14,938</u>
TAP CONNECTIONS	<u>\$ 7,625</u>

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2020**

SECURITY	<u>\$ 211,656</u>
OTHER EXPENDITURES:	
Chemicals	\$ 21,682
Laboratory Fees	22,148
Permit Fees	24,628
Inspection Fees	5,370
Regional Water Authority Assessment	473,993
Regulatory Assessment	3,506
Sludge Hauling	41,672
Other	<u>15,749</u>
TOTAL OTHER EXPENDITURES	<u>\$ 608,748</u>
 TOTAL EXPENDITURES	 <u><u>\$ 1,686,677</u></u>

See accompanying independent auditor's report.

ENCANTO REAL UTILITY DISTRICT
INVESTMENTS
JUNE 30, 2020

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0004	Varies	Daily	\$ 537,635	\$
Certificate of Deposit	XXXX0855	0.70%	05/27/21	240,000	156
Certificate of Deposit	XXXX0126	2.00%	11/20/20	200,000	2,433
Certificate of Deposit	XXXX1806	2.22%	08/25/20	200,000	3,759
Certificate of Deposit	XXXX2427	1.98%	01/26/21	240,000	2,018
Certificate of Deposit	XXXX0424	1.70%	02/20/21	200,000	1,220
Certificate of Deposit	XXXX0795	2.45%	10/06/20	200,000	3,584
Certificate of Deposit	XXXX9576	2.65%	07/30/20	200,000	4,894
Certificate of Deposit	XXXX9913	0.60%	06/02/21	240,000	111
Certificate of Deposit	XXXX7166	2.10%	09/03/20	200,000	3,452
Certificate of Deposit	XXXX4446	1.80%	12/15/20	200,000	1,943
TOTAL GENERAL FUND				\$ 2,657,635	\$ 23,570
<u>DEBT SERVICE FUND</u>					
Texas CLASS	XXXX0003	Varies	Daily	\$ 769,818	\$
Certificate of Deposit	XXXX9983	0.85%	04/16/21	240,000	419
Certificate of Deposit	XXXX7912	0.70%	04/17/21	240,000	341
Certificate of Deposit	XXXX2307	1.24%	04/17/21	240,000	603
Certificate of Deposit	XXXX5762	2.45%	10/26/20	240,000	3,979
Certificate of Deposit	XXXX9147	1.80%	01/29/21	240,000	1,799
Certificate of Deposit	XXXX4265	1.90%	10/27/20	240,000	3,073
TOTAL DEBT SERVICE FUND				\$ 2,209,818	\$ 10,214
<u>CAPITAL PROJECTS FUND</u>					
Texas CLASS	XXXX0005	Varies	Daily	\$ 520,256	\$
Texas CLASS	XXXX0006	Varies	Daily	202,536	
Texas CLASS	XXXX0007	Varies	Daily	10,994	
Texas CLASS	XXXX0008	Varies	Daily	1,342,422	
Texas CLASS	XXXX0009	Varies	Daily	2,745,937	
Texas CLASS	XXXX0010	Varies	Daily	1,382,961	
TOTAL CAPITAL PROJECTS FUND				\$ 6,205,106	\$ -0-
TOTAL - ALL FUNDS				\$ 11,072,559	\$ 33,784

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2020**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JULY 1, 2019	\$	5,546	\$	25,811
Adjustments to Beginning				
Balance		<u>(737)</u>	\$	<u>4,809</u>
			<u>(3,600)</u>	\$
				22,211
Original 2019 Tax Levy	\$	403,581	\$	2,190,869
Adjustment to 2019 Tax Levy		<u>39,292</u>	<u>442,873</u>	<u>213,301</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	447,682	\$
				2,426,381
TAX COLLECTIONS:				
Prior Years	\$	4,809	\$	22,211
Current Year		<u>437,315</u>	<u>442,124</u>	<u>2,373,997</u>
			<u>2,373,997</u>	<u>2,396,208</u>
TAXES RECEIVABLE -				
JUNE 30, 2020		<u>\$</u>	<u>5,558</u>	<u>\$</u>
				<u>30,173</u>
TAXES RECEIVABLE BY				
YEAR:				
2019		<u>\$</u>	<u>5,558</u>	<u>\$</u>
				<u>30,173</u>

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
PROPERTY VALUATIONS:				
Land	\$ 67,292,970	\$ 73,684,748	\$ 67,556,744	\$ 70,688,298
Improvements	265,236,901	245,657,130	212,099,211	194,222,142
Personal Property	13,668,285	9,712,547	8,911,863	8,961,773
Exemptions	<u>(29,859,488)</u>	<u>(31,170,068)</u>	<u>(9,618,596)</u>	<u>(27,840,837)</u>
TOTAL PROPERTY VALUATIONS	<u><u>\$ 316,338,668</u></u>	<u><u>\$ 297,884,357</u></u>	<u><u>\$ 278,949,222</u></u>	<u><u>\$ 246,031,376</u></u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.7600	\$ 0.7600	\$ 0.7600	\$ 0.7300
Maintenance	<u>0.1400</u>	<u>0.1500</u>	<u>0.1700</u>	<u>0.2575</u>
TOTAL TAX RATES PER \$100 VALUATION	<u><u>\$ 0.9000</u></u>	<u><u>\$ 0.9100</u></u>	<u><u>\$ 0.9300</u></u>	<u><u>\$ 0.9875</u></u>
ADJUSTED TAX LEVY*	<u><u>\$ 2,847,043</u></u>	<u><u>\$ 2,710,743</u></u>	<u><u>\$ 2,594,222</u></u>	<u><u>\$ 2,429,553</u></u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u><u>98.74 %</u></u>	<u><u>100.00 %</u></u>	<u><u>100.00 %</u></u>	<u><u>100.00 %</u></u>

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

Maintenance Tax – A maintenance tax rate not to exceed \$0.50 per \$100 of assessed valuation was approved by voters on August 14, 1976.

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

S E R I E S - 2 0 0 6			
Due During Fiscal Years Ending June 30	Principal Due May 1	Interest Due November 1/ May 1	Total
2021	\$ 75,000	\$ 34,150	\$ 109,150
2022	80,000	30,850	110,850
2023	85,000	27,330	112,330
2024	90,000	23,505	113,505
2025	95,000	19,455	114,455
2026	105,000	15,180	120,180
2027	110,000	10,350	120,350
2028	115,000	5,290	120,290
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
	\$ 755,000	\$ 166,110	\$ 921,110

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

REFUNDING SERIES - 2012

Due During Fiscal Years Ending June 30	Principal Due May 1	Interest Due November 1/ May 1	Total
2021	\$ 125,000	\$ 39,818	\$ 164,818
2022	130,000	36,068	166,068
2023	135,000	31,972	166,972
2024	140,000	27,585	167,585
2025	145,000	22,825	167,825
2026	150,000	17,750	167,750
2027	160,000	12,350	172,350
2028	165,000	6,270	171,270
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
	<u>\$ 1,150,000</u>	<u>\$ 194,638</u>	<u>\$ 1,344,638</u>

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

S E R I E S - 2 0 1 5			
Due During Fiscal Years Ending June 30	Principal Due May 1	Interest Due November 1/ May 1	Total
2021	\$	\$ 104,513	\$ 104,513
2022		104,513	104,513
2023		104,513	104,513
2024		104,513	104,513
2025		104,513	104,513
2026		104,513	104,513
2027		104,513	104,513
2028		104,513	104,513
2029	180,000	104,513	284,513
2030	185,000	95,512	280,512
2031	195,000	86,262	281,262
2032	205,000	79,925	284,925
2033	220,000	73,262	293,262
2034	230,000	66,112	296,112
2035	240,000	58,350	298,350
2036	255,000	49,950	304,950
2037	265,000	41,025	306,025
2038	280,000	31,750	311,750
2039	295,000	21,950	316,950
2040	310,000	11,625	321,625
2041			
2042			
2043			
	\$ 2,860,000	\$ 1,556,340	\$ 4,416,340

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

S E R I E S - 2 0 1 5 A				
Due During Fiscal Years Ending June 30	Principal Due May 1	Interest Due November 1/ May 1	Total	
2021	\$ 150,000	\$ 213,944	\$	363,944
2022	150,000	210,944		360,944
2023	175,000	207,569		382,569
2024	175,000	203,194		378,194
2025	175,000	198,819		373,819
2026	175,000	193,569		368,569
2027	175,000	188,319		363,319
2028	175,000	183,069		358,069
2029	265,000	177,819		442,819
2030	275,000	169,537		444,537
2031	290,000	160,944		450,944
2032	305,000	151,881		456,881
2033	325,000	142,350		467,350
2034	340,000	131,787		471,787
2035	360,000	120,737		480,737
2036	375,000	108,587		483,587
2037	395,000	95,462		490,462
2038	420,000	80,650		500,650
2039	440,000	64,900		504,900
2040	460,000	48,400		508,400
2041	750,000	30,000		780,000
2042				
2043				
	\$ 6,350,000	\$ 3,082,481	\$	9,432,481

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

S E R I E S - 2 0 1 6				
Due During Fiscal Years Ending June 30	Principal Due May 1	Interest Due November 1/ May 1	Total	
2021	\$ 350,000	\$ 202,000	\$	552,000
2022	350,000	195,000		545,000
2023	350,000	188,000		538,000
2024	350,000	181,000		531,000
2025	400,000	174,000		574,000
2026	400,000	166,000		566,000
2027	400,000	158,000		558,000
2028	400,000	150,000		550,000
2029	400,000	142,000		542,000
2030	400,000	133,000		533,000
2031	400,000	124,000		524,000
2032	400,000	115,000		515,000
2033	400,000	105,000		505,000
2034	400,000	95,000		495,000
2035	400,000	85,000		485,000
2036	400,000	74,000		474,000
2037	400,000	63,000		463,000
2038	400,000	51,000		451,000
2039	400,000	39,000		439,000
2040	450,000	27,000		477,000
2041	450,000	13,500		463,500
2042				
2043				
	\$ 8,300,000	\$ 2,480,500	\$	10,780,500

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

S E R I E S - 2 0 1 7

Due During Fiscal Years Ending June 30	Principal Due May 1	Interest Due November 1/ May 1	Total
2021	\$ 200,000	\$ 266,875	\$ 466,875
2022	200,000	262,875	462,875
2023	200,000	258,875	458,875
2024	200,000	253,875	453,875
2025	200,000	248,875	448,875
2026	200,000	242,875	442,875
2027	200,000	236,875	436,875
2028	200,000	230,875	430,875
2029	300,000	224,875	524,875
2030	400,000	215,875	615,875
2031	400,000	203,875	603,875
2032	500,000	191,375	691,375
2033	500,000	175,750	675,750
2034	500,000	159,500	659,500
2035	500,000	143,250	643,250
2036	500,000	127,000	627,000
2037	500,000	110,125	610,125
2038	500,000	93,875	593,875
2039	500,000	77,000	577,000
2040	500,000	59,500	559,500
2041	600,000	42,000	642,000
2042	600,000	21,000	621,000
2043			
	<u>\$ 8,400,000</u>	<u>\$ 3,847,000</u>	<u>\$ 12,247,000</u>

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending June 30	Principal Due May 1	Interest Due November 1/ May 1	Total
2021	\$ 350,000	\$ 305,938	\$ 655,938
2022	350,000	298,062	648,062
2023	350,000	289,312	639,312
2024	350,000	278,812	628,812
2025	350,000	268,312	618,312
2026	350,000	257,812	607,812
2027	350,000	247,312	597,312
2028	350,000	236,812	586,812
2029	350,000	226,312	576,312
2030	350,000	214,938	564,938
2031	350,000	203,562	553,562
2032	350,000	192,188	542,188
2033	350,000	180,376	530,376
2034	350,000	168,562	518,562
2035	350,000	156,750	506,750
2036	350,000	144,500	494,500
2037	350,000	131,376	481,376
2038	350,000	118,250	468,250
2039	350,000	106,000	456,000
2040	350,000	93,750	443,750
2041	350,000	80,626	430,626
2042	900,000	67,500	967,500
2043	900,000	33,750	933,750
	<u>\$ 9,150,000</u>	<u>\$ 4,300,812</u>	<u>\$ 13,450,812</u>

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

S E R I E S - 2 0 1 9			
Due During Fiscal Years Ending June 30	Principal Due May 1	Interest Due November 1/ May 1	Total
2021	\$	\$ 74,825	\$ 74,825
2022	100,000	74,825	174,825
2023	100,000	70,825	170,825
2024	100,000	66,825	166,825
2025	100,000	62,825	162,825
2026	100,000	58,825	158,825
2027	100,000	56,825	156,825
2028	100,000	54,825	154,825
2029	100,000	52,825	152,825
2030	100,000	50,700	150,700
2031	100,000	48,325	148,325
2032	100,000	45,950	145,950
2033	100,000	43,575	143,575
2034	100,000	40,950	140,950
2035	100,000	38,325	138,325
2036	100,000	35,700	135,700
2037	100,000	32,950	132,950
2038	100,000	30,200	130,200
2039	100,000	27,450	127,450
2040	100,000	24,700	124,700
2041	100,000	21,950	121,950
2042	300,000	19,200	319,200
2043	340,000	10,200	350,200
	\$ 2,640,000	\$ 1,043,600	\$ 3,683,600

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	\$ 1,250,000	\$ 1,242,063	\$ 2,492,063
2022	1,360,000	1,213,137	2,573,137
2023	1,395,000	1,178,396	2,573,396
2024	1,405,000	1,139,309	2,544,309
2025	1,465,000	1,099,624	2,564,624
2026	1,480,000	1,056,524	2,536,524
2027	1,495,000	1,014,544	2,509,544
2028	1,505,000	971,654	2,476,654
2029	1,595,000	928,344	2,523,344
2030	1,710,000	879,562	2,589,562
2031	1,735,000	826,968	2,561,968
2032	1,860,000	776,319	2,636,319
2033	1,895,000	720,313	2,615,313
2034	1,920,000	661,911	2,581,911
2035	1,950,000	602,412	2,552,412
2036	1,980,000	539,737	2,519,737
2037	2,010,000	473,938	2,483,938
2038	2,050,000	405,725	2,455,725
2039	2,085,000	336,300	2,421,300
2040	2,170,000	264,975	2,434,975
2041	2,250,000	188,076	2,438,076
2042	1,800,000	107,700	1,907,700
2043	1,240,000	43,950	1,283,950
	<u>\$ 39,605,000</u>	<u>\$ 16,671,481</u>	<u>\$ 56,276,481</u>

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JUNE 30, 2020**

Description	Original Bonds Issued	Bonds Outstanding July 1, 2019
Encanto Real Utility District Waterworks and Sewer Sytem Combination Unlimited Tax and Revenue Bonds - Series 2006	\$ 1,280,000	\$ 830,000
Encanto Real Utility District Unlimited Tax Refunding Bonds - Series 2012	1,950,000	1,270,000
Encanto Real Utility District Unlimited Tax Bonds - Series 2015	2,860,000	2,860,000
Encanto Real Utility District Unlimited Tax Bonds - Series 2015A	6,900,000	6,500,000
Encanto Real Utility District Unlimited Tax Bonds - Series 2016	9,700,000	8,650,000
Encanto Real Utility District Unlimited Tax Bonds - Series 2017	9,000,000	8,600,000
Encanto Real Utility District Unlimited Tax Bonds - Series 2018	9,850,000	9,500,000
Encanto Real Utility District Unlimited Tax Bonds - Series 2019	<u>2,640,000</u>	
TOTAL	<u>\$ 44,180,000</u>	<u>\$ 38,210,000</u>
	Refunding	
Bond Authority:	Tax Bonds	Park Bonds
Amount Authorized by Voters	\$ 129,600,000	\$ 8,300,000
Amount Issued	<u>40,950,000</u>	<u>400,000</u>
Remaining to be Issued	<u>\$ 88,650,000</u>	<u>\$ 8,300,000</u>
Debt Service Fund cash and investments balances as of June 30, 2020:		<u>\$ 2,350,542</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 2,446,804</u>

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

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding June 30, 2020	Paying Agent
	Principal	Interest		
\$	\$ 75,000	\$ 37,450	\$ 755,000	Wells Fargo Bank, N.A. Dallas, TX
	120,000	43,238	1,150,000	Wells Fargo Bank N.A. Dallas, TX
		104,513	2,860,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	150,000	216,944	6,350,000	Amegy Bank N.A. Houston, TX
	350,000	209,000	8,300,000	Amegy Bank N.A. Houston, TX
	200,000	270,875	8,400,000	Amegy Bank N.A. Houston, TX
	350,000	313,813	9,150,000	Amegy Bank N.A. Houston, TX
<u>2,640,000</u>		<u>40,321</u>	<u>2,640,000</u>	Zions Bancorporation N.A. Houston, TX
<u>\$ 2,640,000</u>	<u>\$ 1,245,000</u>	<u>\$ 1,236,154</u>	<u>\$ 39,605,000</u>	
<u>Road Bonds</u>				
\$ 14,600,000				
<u>\$ 14,600,000</u>				

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	\$ 442,944	\$ 447,509	\$ 476,084
Water Service	382,856	380,674	335,084
Wastewater Service	325,325	327,612	257,508
Regional Water Authority Fees	507,031	457,415	458,757
Penalty and Interest	37,682	41,548	25,914
Tap Connection and Inspection Fees	13,715	15,995	140,229
Investment Revenues	56,658	48,646	20,157
Miscellaneous Revenues	12,878	22,056	13,612
TOTAL REVENUES	\$ 1,779,089	\$ 1,741,455	\$ 1,727,345
EXPENDITURES			
Professional Fees	\$ 189,119	\$ 143,118	\$ 177,221
Contracted Services	357,843	317,592	263,643
Utilities	70,552	71,429	72,827
Regional Water Authority Assessment	473,993	419,411	364,215
Repairs and Maintenance	343,368	311,831	225,810
Other	236,864	182,083	206,526
Capital Outlay	14,938	6,044	
TOTAL EXPENDITURES	\$ 1,686,677	\$ 1,451,508	\$ 1,310,242
EXCESS OF REVENUES OVER EXPENDITURES	\$ 92,412	\$ 289,947	\$ 417,103
OTHER FINANCING SOURCES			
Transfers In	\$	\$	\$
Sale of Capital Assets			42,000
TOTAL OTHER FINANCING SOURCES	\$ - 0 -	\$ - 0 -	\$ 42,000
NET CHANGE IN FUND BALANCE	\$ 92,412	\$ 289,947	\$ 459,103
BEGINNING FUND BALANCE	2,672,175	2,382,228	1,923,125
ENDING FUND BALANCE	\$ 2,764,587	\$ 2,672,175	\$ 2,382,228

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2017	2016	2020	2019	2018	2017	2016
\$ 636,631	\$ 504,987	24.9 %	25.7 %	27.6 %	33.1 %	30.7 %
381,362	334,687	21.5	21.8	19.4	19.8	20.3
298,393	267,616	18.3	18.8	14.9	15.5	16.2
371,971	266,291	28.5	26.3	26.5	19.4	16.2
19,515	16,149	2.1	2.4	1.5	1.0	1.0
175,993	233,362	0.8	0.9	8.1	9.2	14.2
8,109	3,887	3.2	2.8	1.2	0.4	0.2
29,830	20,536	0.7	1.3	0.8	1.6	1.2
<u>\$ 1,921,804</u>	<u>\$ 1,647,515</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 153,255	\$ 121,656	10.7 %	8.3 %	10.2 %	8.0 %	7.4 %
238,759	241,587	20.1	18.2	15.3	12.4	14.7
67,232	78,378	4.0	4.1	4.2	3.5	4.8
364,812	262,528	26.6	24.1	21.1	19.0	15.9
286,394	274,612	19.3	17.9	13.1	14.9	16.7
186,557	360,350	13.3	10.5	12.0	9.7	21.9
29,420	147,990	0.8	0.3		1.5	9.0
<u>\$ 1,326,429</u>	<u>\$ 1,487,101</u>	<u>94.8 %</u>	<u>83.4 %</u>	<u>75.9 %</u>	<u>69.0 %</u>	<u>90.4 %</u>
<u>\$ 595,375</u>	<u>\$ 160,414</u>	<u>5.2 %</u>	<u>16.6 %</u>	<u>24.1 %</u>	<u>31.0 %</u>	<u>9.6 %</u>
\$ 82,198	\$ 9,871					
<u>\$ 82,198</u>	<u>\$ 9,871</u>					
\$ 677,573	\$ 170,285					
<u>1,245,552</u>	<u>1,075,267</u>					
<u>\$ 1,923,125</u>	<u>\$ 1,245,552</u>					

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	\$ 2,400,359	\$ 2,264,530	\$ 2,117,552
Penalty and Interest	21,067	18,871	13,038
Investment Revenues	52,322	52,666	25,568
Miscellaneous Revenues	441	450	10,305
TOTAL REVENUES	\$ 2,474,189	\$ 2,336,517	\$ 2,166,463
EXPENDITURES			
Tax Collection Expenditures	\$ 49,742	\$ 37,525	\$ 38,566
Debt Service Principal	1,245,000	1,235,000	855,000
Debt Service Interest and Fees	1,239,954	1,097,934	911,410
TOTAL EXPENDITURES	\$ 2,534,696	\$ 2,370,459	\$ 1,804,976
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (60,507)	\$ (33,942)	\$ 361,487
OTHER FINANCING SOURCES			
Bond Proceeds	\$	\$	\$
TOTAL OTHER FINANCING SOURCES, NET	\$ - 0 -	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ (60,507)	\$ (33,942)	\$ 361,487
BEGINNING FUND BALANCE	2,413,505	2,447,447	2,085,960
ENDING FUND BALANCE	\$ 2,352,998	\$ 2,413,505	\$ 2,447,447
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,270	1,262	1,252
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,226	1,211	1,211

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2017	2016	2020	2019	2018	2017	2016
\$ 1,798,485	\$ 1,064,818	97.0 %	96.9 %	97.7 %	97.9 %	98.4 %
29,497	11,410	0.9	0.8	0.6	1.6	1.1
9,715	3,836	2.1	2.3	1.2	0.5	0.4
303	994			0.5		0.1
<u>\$ 1,838,000</u>	<u>\$ 1,081,058</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 35,196	\$ 25,861	2.0 %	1.7 %	1.8 %	1.9 %	2.4 %
640,000	160,000	50.3	52.9	39.5	34.8	14.8
<u>569,058</u>	<u>304,386</u>	<u>50.1</u>	<u>46.9</u>	<u>42.0</u>	<u>31.0</u>	<u>28.2</u>
<u>\$ 1,244,254</u>	<u>\$ 490,247</u>	<u>102.4 %</u>	<u>101.5 %</u>	<u>83.3 %</u>	<u>67.7 %</u>	<u>45.4 %</u>
<u>\$ 593,746</u>	<u>\$ 590,811</u>	<u>(2.4) %</u>	<u>(1.5) %</u>	<u>16.7 %</u>	<u>32.3 %</u>	<u>54.6 %</u>
<u>\$ 115,000</u>	<u>\$ 112,472</u>					
<u>\$ 115,000</u>	<u>\$ 112,472</u>					
\$ 708,746	\$ 703,283					
<u>1,377,214</u>	<u>673,931</u>					
<u>\$ 2,085,960</u>	<u>\$ 1,377,214</u>					
<u>1,205</u>	<u>1,108</u>					
<u>1,160</u>	<u>1,063</u>					

See accompanying independent auditor's report.

**ENCANTO REAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2020**

District Mailing Address - Encanto Real Utility District
c/o Marks Richardson PC
3700 Buffalo Speedway, Suite 830
Houston, TX 77098

District Telephone Number - (713) 942-9922

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>June 30, 2020</u>	Expense Reimbursements for the year ended <u>June 30, 2020</u>	<u>Title</u>
Bruce D. Burkhardt	05/18 05/22 (Elected)	\$ 1,950	\$ 50	President
Katherine Sloan	05/18 05/22 (Elected)	\$ 1,650	\$ -0-	Vice President
Phil Knox	05/18 05/22 (Elected)	\$ 2,100	\$ 817	Secretary/ Records Management Officer
David Mills	05/17 11/20 (Appointed)	\$ 1,950	\$ -0-	Assistant Secretary
John Escamilla	05/16 01/20 (Resigned)	\$ 1,200	\$ -0-	Former Director

Note: 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 developer or with any of the District's consultants.

Submission date of most recent District Registration Form: July 9, 2020

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.

**ENCANTO REAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2020**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended June 30, 2020</u>	<u>Title</u>
Marks Richardson PC	04/15/06	\$ 106,668 \$ 79,224	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	06/17/14	\$ 14,250 \$ 23,250	Auditor Bond Related
Municipal Accounts & Consulting, L.P.	2002	\$ 33,203 \$ 3,250	Bookkeeper Bond Related
Ted A. Cox, P.C.	04/19/95	\$ 7,523	Delinquent Tax Attorney
Dannenbaum Engineering	01/03/78	\$ 250,334 \$ 6,246	Engineer Bond Related
Masterson Advisors LLC	04/17/18	\$ 59,316	Financial Advisor
Water District Management Company, Inc.	06/08/77	\$ 389,306	Operator
Wheeler & Associates, Inc.	11/74	\$ 15,498	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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