

OFFICIAL STATEMENT DATED FEBRUARY 16, 2021

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF FAULKEY GULLY MUNICIPAL UTILITY DISTRICT. IN THE OPINION OF SPECIAL TAX COUNSEL, 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” AND “TAX MATTERS” HEREIN FOR A DISCUSSION OF THE OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL, RESPECTIVELY.

The District designated the Bonds as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations” herein.

NEW ISSUE—BOOK-ENTRY ONLY
CUSIP No. 312035

RATINGS: Underlying “A1” Moody’s
Insured “AA” (stable outlook) S&P

See “BOND INSURANCE” and “UNDERLYING MUNICIPAL BOND RATING” herein

\$4,715,000
FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
(A political subdivision of the State of Texas, located in Harris County, Texas)
WATERWORKS AND SEWER SYSTEM COMBINATION
UNLIMITED TAX AND REVENUE REFUNDING BONDS
SERIES 2021

Dated: March 1, 2021

Due: March 1 (as shown below)

Interest on the Bonds (the “Bonds” or the “Series 2021 Refunding Bonds”) will accrue from March 1, 2021, and will be payable on September 1 and March 1 of each year, commencing September 1, 2021. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS.”

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. (“AGM”).



MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

| <u>Principal Amount</u> | <u>Maturity</u> | <u>Interest Rate</u> | <u>Yield to Maturity(a)</u> | <u>Principal Amount</u> | <u>Maturity</u> | <u>Interest Rate</u> | <u>Yield to Maturity(a)</u> |
|-------------------------|-----------------|----------------------|-----------------------------|-------------------------|-----------------|----------------------|-----------------------------|
| \$255,000 | 2022 | 3.000% | 0.180% | \$310,000 | 2029(b) | 1.000% | 1.000% |
| \$265,000 | 2023 | 3.000% | 0.250% | \$315,000 | 2030(b) | 1.000% | 1.210% |
| \$275,000 | 2024 | 3.000% | 0.300% | \$320,000 | 2031(b) | 1.000% | 1.390% |
| \$290,000 | 2025 | 3.000% | 0.430% | \$325,000 | 2032(b) | 1.250% | 1.460% |
| \$295,000 | 2026 | 3.000% | 0.600% | \$335,000 | 2033(b) | 1.250% | 1.530% |
| \$300,000 | 2027(b) | 1.000% | 0.760% | \$340,000 | 2034(b) | 1.250% | 1.600% |
| \$305,000 | 2028(b) | 1.000% | 0.880% | \$350,000 | 2035(b) | 1.375% | 1.660% |

\$435,000 1.50% Term Bond Due March 1, 2037 to Yield 1.74% (a) (b) (c)

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined) and may be subsequently changed.
- (b) The Bonds maturing on or after March 1, 2027, are subject to redemption in whole or from time to time in part, at the option of the District (hereinafter defined), on March 1, 2026, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds of a particular maturity are redeemed, the Bonds to be redeemed shall be selected, on behalf of the District, by the Paying Agent/Registrar, in its capacity as Registrar, by lot or other customary method, in integral multiples of \$5,000 in any one maturity. See “THE BONDS – Optional Redemption.”
- (c) Subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Redemption.”

The proceeds of the Bonds will be used by Faulkey Gully Municipal Utility District (the “District”) to currently refund certain of the District’s outstanding bonds (as defined herein) and to pay bond issuance and administrative expenses. See “PLAN OF FINANCING.” The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. In addition, the Bonds are secured by a pledge of and a lien on certain net revenues, if any, from the District’s waterworks and sanitary sewer system. See “THE BONDS – Sources of and Security for Payment.” 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. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, or the City of Houston is pledged to the payment of the principal of or interest on the Bonds. **The Bonds are subject to certain investment considerations described under the caption “INVESTMENT CONSIDERATIONS.”**

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Coats Rose, P.C., Houston, Texas, Bond Counsel and McCall, Parkhurst & Horton, LLP, Dallas, Texas, Special Tax Counsel. Certain legal matters will be passed upon for the Underwriter (as defined herein) by Norton Rose Fulbright US LLP, Houston, Texas, Underwriter’s Counsel. Delivery of the Bonds is expected on or about March 25, 2021.

SAMCO CAPITAL

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

Any information and expressions of opinion herein contained are subject to change, 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.

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

The following statement is provided by the Underwriters. In accordance with their responsibilities under the federal securities laws, the Underwriters have reviewed the information in this Official Statement but do not guarantee its accuracy or completeness.

UNDERWRITING

Award of the Bonds

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the "Underwriter") pursuant to a proposal submitted to the District at a price of \$4,720,500.15 which represents the principal amount of the Bonds \$4,715,000.00 plus a net original issue premium of \$36,147.65 less an underwriters' discount of \$30,647.50 plus accrued interest on the Bonds from the Dated Date to the date of delivery. Such price produces a net effective interest rate of 1.324346%.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriter.

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.

The Underwriter and its respective affiliates is a full-service financial institution engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. The Underwriter and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriter and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District.

Prices and Marketability

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

THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR AFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES

OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district bonds may be greater than the 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 Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

UNDERLYING MUNICIPAL BOND RATING

In connection with the sale of the Bonds, the District made application to Moody's Investors Service, Inc. ("Moody's") which assigned a rating of "A1" on the Bonds based upon the District's underlying credit without bond insurance. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the view of Moody's and the District makes no representation as to the appropriateness of such rating. The District can make no assurance that the Moody's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by Moody's if in the judgment of Moody's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE AND RATING

Moody's has assigned its municipal bond rating of "A1" 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 AGM. The rating is the highest of: (i) the guarantor's financial strength rating, (ii) any published underlying rating on the security, or (iii) any published enhanced rating based on a state credit enhancement program. The financial strength of AGM is currently rated "A2" (stable outlook) by Moody's. The District can make no assurance that the Moody's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by Moody's if in the judgment of Moody's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE" and "APPENDIX B."

S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by AGM. The District can make no assurance that S&P's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE" and "APPENDIX B."

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 an appendix 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.

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

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

Miscellaneous Matters

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

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

- Description:** The \$4,715,000 Faulkey Gully Municipal Utility District (the "District") Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2021 (the "Bonds" or the "Series 2021 Refunding Bonds") are dated March 1, 2021, and issued pursuant to Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including Chapters 49 and 54, Texas Water Code, as amended, Chapter 1207, Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an election held within the District, and a resolution (the "Bond Resolution") of the Board of Directors of the District.
- The Bonds mature on March 1 in the years and in the principal amounts set forth on the cover page of this Official Statement. Interest on the Bonds is payable on September 1, 2021, and each March 1 and September 1 thereafter until maturity or prior redemption. See "THE BONDS."
- Book-Entry-Only System:** The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, 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."
- Redemption Provisions:** Bonds maturing on or after March 1, 2027, are subject to early redemption, in whole or from time to time in part, on March 1, 2026, or on any date thereafter at the option of the District at a price of par plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption." The Bonds maturing on March 1 in the year 2037 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning on March 1 in the year 2036. See "THE BONDS – Mandatory Redemption."
- Authorized but Unissued Bonds:** After the sale of the Bonds, the District will have \$16,840,979.15 remaining authorized but unissued unlimited tax and revenue bonds that may be issued in the future for the purpose of providing waterworks, sanitary sewer, and drainage facilities to the land within the District or refunding bonds previously sold by the District. See "THE BONDS – Issuance of Additional Debt."
- Source of Payment:** The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District and will be further payable from and secured by a pledge of and a lien on certain net revenues, if any, from the District's waterworks and sanitary sewer system. See "TAX PROCEDURES." With respect to payment from taxes, the Bonds are further payable equally and ratably with the Outstanding Bonds and bonds to be issued in the future by the District. See "THE BONDS – Sources of and Security for Payment." The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, or any other political subdivision or agency.
- Municipal Bond Rating:** In connection with the sale of the Bonds, the District made a formal application for a rating with Moody's. Moody's assigned a rating of "A1" on the Bonds based on the District's underlying credit without bond insurance. See "UNDERLYING MUNICIPAL BOND RATING."
- Municipal Bond Insurance and Rating:** Moody's has assigned its municipal bond rating of "A1" 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 AGM. The rating is the highest of: (i) the guarantor's financial strength rating, (ii) any published underlying rating on the security, or (iii) any published enhanced rating based on a state credit enhancement program. The financial strength of AGM is currently rated "A2" (stable outlook) by Moody's.
- S&P has assigned its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by AGM. See "MUNICIPAL BOND INSURANCE AND RATINGS," "BOND INSURANCE," and "APPENDIX B."
- Plan of Financing:** Proceeds from the sale of the Bonds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund certain of the District's Waterworks and Sewer System

Combination Unlimited Tax Refunding Bonds, Series 2015 in an aggregate principal amount of \$4,530,000 (the "Refunded Bonds") in order to achieve present value savings in the District's debt service expense. See "PLAN OF FINANCING."

Qualified Tax Exempt Obligations:

The District designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and the District represents that the total amount of tax-exempt bonds (including the Bonds) issued during calendar year 2021 is not reasonably expected to exceed \$10,000,000. See "QUALIFIED TAX-EXEMPT OBLIGATIONS."

Payment Record:

The District has previously issued ten (10) series of new money bonds and eight (8) series of refunding bonds, of which \$6,775,000 principal amount was outstanding as of January 1, 2021 (the "Outstanding Bonds"). The District has never defaulted in the payment of principal of or interest on its bonds. See "DISTRICT DEBT."

Legal Opinions:

Coats Rose, P.C., Houston, Texas, Bond Counsel. See "LEGAL MATTERS." McCall, Parkhurst & Horton, LLP, Dallas, Texas, Special Tax Counsel. See "TAX MATTERS."

Paying Agent/Registrar:

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS – Paying/Agent Registrar."

Verification Agent:

Robert Thomas CPA, LLC, Minneapolis, Minnesota. See "VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS."

Investment Considerations:

The Bonds are subject to certain risk factors as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds, particularly the section captioned "INVESTMENT CONSIDERATIONS."

THE DISTRICT

Description:

The District originally contained approximately 533 acres. Ten subsequent annexations that included 22 tracts of land ranging in size from 2 acres to 60 acres, totaling approximately 406 acres, increased the size of the District to its present 939 acres. The District is located in northwest Harris County approximately 23 miles from Houston's central business district and lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston. The District is generally bounded on the north by Spring-Cypress Road, on the southeast by Malcomson Road, and on the southwest by Grant Road. Faulkey Gully roughly bisects the District from east to west. The District is relatively flat and wooded, with elevations ranging from 125 to 149 feet above mean sea level ("msl"). The land within the District slopes generally in a southeasterly direction. See "THE DISTRICT – Description."

Development of the District:

The District is substantially built out and was developed for predominately single-family residential purposes. As of January 1, 2021, the District included 878 developed and improved acres, 15 developable acres that remain to be developed, and 46 undevelopable acres, which include drainage easements, district plant sites, community association sites, and other undevelopable acres. See "THE DISTRICT – Status of Land Development/Land Uses in the District." As of January 1, 2021, the approximate status of development in the District includes 2,634 single-family residential homes, no homes under construction, and no vacant developed lots. Additionally, the District includes approximately 75 acres of commercial building development. See "THE DISTRICT – Status of Land Development/Land Uses in the District," "– Status of Single-Family Development in the District," and "– Commercial Connections."

The System:

According to the District's engineer, the District has adequate water supply and wastewater treatment capacity to serve the District's single-family and commercial connections. The majority of land in the District drains into Faulkey Gully and further into Cypress Creek and certain of the land in the District drains into Harris County Flood Control District Unit L103-00-00 to Little Cypress Creek and then into Cypress Creek. Harris County has accepted and maintains substantially all of the District's drainage facilities. Certain District drainage facilities have been accepted and will be maintained by homeowners' associations serving the Park at Glen Arbor Subdivision and various gated subdivisions. In addition, Harris County has undertaken certain other drainage projects in the area of the District, which should positively affect drainage in the District. According to the District's engineer, the Flood Insurance Rate Map ("FIRM") currently in effect published by the Federal Emergency Management Agency, which covers the land located in the District, indicates that all of the land within the District is located outside the 100-year flood plain with the exception of the limits of Faulkey Gully. See "THE SYSTEM."

Infectious Disease Outlook (COVID-19):

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently

affecting many parts of the world, including the United States and Texas. Federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are generally as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not necessarily indicative of the economic impact of the Pandemic on the District's financial condition.

SELECTED FINANCIAL INFORMATION
(Unaudited)

| | |
|--|-------------------------|
| 2020 Certified Taxable Value | \$659,954,744 (a) |
| Direct Debt | |
| Remaining Outstanding Bonds | \$2,245,000 (b) |
| The Bonds | <u>\$4,715,000</u> |
| Total Direct Debt | \$6,960,000 |
| See "DISTRICT DEBT" | |
| Estimated Overlapping Debt | <u>\$40,181,999 (c)</u> |
| Direct and Estimated Overlapping Debt | \$47,141,999 |
| Percentage of Direct Debt to: | |
| 2020 Certified Taxable Value | 1.05% |
| See "DISTRICT DEBT" | |
| Percentage of Direct and Estimated Overlapping Debt to: | |
| 2020 Certified Taxable Value | 7.14% |
| See "DISTRICT DEBT" | |
| 2020 Tax Rate Per \$100 of Assessed Value: | |
| Debt Service | \$0.179 |
| Maintenance Tax | <u>\$0.193</u> |
| Total 2020 Tax Rate | \$0.372 |
| General Fund Cash and Investment Balance as of January 21, 2021 | \$9,502,100 (d) |
| Debt Service Fund Cash and Investment Balance as of January 21, 2021 | \$1,252,729 (e) |

-
- (a) Reflects the Certified Taxable Valuation as of January 1, 2020, according to data supplied by Harris County Appraisal District ("HCAD" or the "Appraisal District"). The taxable value reflected above includes \$628,844,493 of taxable value that is currently certified on the appraisal roll and \$31,110,251 of uncertified taxable value that is under protest and, therefore, still in the certification process. The \$31,110,251 of uncertified taxable value represents HCAD's estimate of the total taxable value that will be assigned to such properties if the owners' claims are upheld by the Harris County Appraisal Review Board. See "TAX DATA – Analysis of Tax Base" and "TAX PROCEDURES."
- (b) Excludes the Refunded Bonds. See "PLAN OF FINANCING – Outstanding Bonds."
- (c) See "DISTRICT DEBT – Estimated Overlapping Debt."
- (d) Unaudited figure per the District's records. See "THE SYSTEM – Operating History."
- (e) Unaudited figure per the District's records. Neither Texas law nor the District's Bond Resolution requires that the District maintain any particular balance in the Debt Service Fund. See "TAX DATA – Tax Rate Calculations."

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the District's currently Outstanding Bonds less the debt service requirements on the Refunded Bonds, plus the debt service requirements on the Series 2021 Refunding Bonds.

| <u>Year</u> | <u>Outstanding Debt Service</u> | <u>Less Debt Service On Refunded Bonds</u> | <u>Plus: Series 2021 Refunding Bonds</u> | | <u>Total Debt Service</u> |
|---------------|-------------------------------------|--|--|------------------|-------------------------------|
| | | | <u>Principal</u> | <u>Interest</u> | |
| 2021 | \$552,631 | \$66,941 | | \$40,369 | \$526,059 |
| 2022 | \$537,393 | \$361,294 | \$255,000 | \$76,913 | \$508,012 |
| 2023 | \$536,862 | \$361,063 | \$265,000 | \$69,113 | \$509,912 |
| 2024 | \$545,862 | \$365,663 | \$275,000 | \$61,013 | \$516,212 |
| 2025 | \$543,481 | \$369,081 | \$290,000 | \$52,538 | \$516,938 |
| 2026 | \$541,356 | \$366,356 | \$295,000 | \$43,763 | \$513,763 |
| 2027 | \$550,306 | \$368,406 | \$300,000 | \$37,838 | \$519,738 |
| 2028 | \$548,856 | \$370,156 | \$305,000 | \$34,813 | \$518,513 |
| 2029 | \$552,056 | \$371,606 | \$310,000 | \$31,738 | \$522,188 |
| 2030 | \$549,906 | \$372,756 | \$315,000 | \$28,613 | \$520,763 |
| 2031 | \$552,212 | \$373,413 | \$320,000 | \$25,438 | \$524,237 |
| 2032 | \$553,918 | \$373,569 | \$325,000 | \$21,806 | \$527,155 |
| 2033 | \$565,056 | \$383,256 | \$335,000 | \$17,681 | \$534,481 |
| 2034 | \$382,475 | \$382,475 | \$340,000 | \$13,463 | \$353,463 |
| 2035 | \$386,303 | \$386,303 | \$350,000 | \$8,931 | \$358,931 |
| 2036 | \$246,781 | \$246,781 | \$215,000 | \$4,913 | \$219,913 |
| 2037 | <u>\$248,981</u> | <u>\$248,981</u> | <u>\$220,000</u> | <u>\$1,650</u> | <u>\$221,650</u> |
| TOTALS | \$8,394,435 | \$5,768,100 | \$4,715,000 | \$570,593 | \$7,911,928 |

Maximum Annual Debt Service Requirement (2033)..... \$534,481

\$0.09 Tax Rate on the 2020 Certified Taxable Value of \$659,954,744
at 95% collections produces..... \$564,261

See "TAX DATA – Tax Rate Calculations."

OFFICIAL STATEMENT

relating to

\$4,715,000

FAULKY GULLY MUNICIPAL UTILITY DISTRICT

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

WATERWORKS AND SEWER SYSTEM COMBINATION UNLIMITED TAX AND REVENUE REFUNDING BONDS

SERIES 2021

INTRODUCTION

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, including particularly Texas Water Code, Chapters 49 and 54, as amended, Chapter 1207, Texas Government Code, as amended, an election held within the District, a resolution (the "Bond Resolution") adopted by the Board of Directors of Faulkey Gully Municipal Utility District (the "District"), a conservation and reclamation district and political subdivision of the State of Texas located within Harris County, Texas, and Ordinance No. 97-416 of the City of Houston, Texas.

This Official Statement includes descriptions of the Bonds, Use of Bond Proceeds, the Bond Resolution, and certain information about the District's status of development and the District's financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by requesting such in writing to the Bond Counsel and providing for payment of reproduction costs.

INVESTMENT CONSIDERATIONS

General

The security for payment of the Bonds depends on the District's ability to collect taxes levied against property within the District in an amount sufficient to pay debt service on the Bonds when due. The District makes no representation that over the term of the Bonds taxable property within the District will maintain values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property if the District forecloses on property subject to the District's tax lien. Further, the collection of delinquent taxes due the District and the enforcement by a bondholder of the District's obligation to collect sufficient taxes may be costly and lengthy processes. See "Tax Collections" and "Registered Owners' Remedies" herein and "THE BONDS – Sources of and Security for Payment."

Infectious Disease Outlook (COVID-19)

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

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

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

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values 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 COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are generally as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not necessarily indicative of the economic impact of the Pandemic on the District's financial condition.

Marketability

The District has no understanding (other than the initial reoffering yields) 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 spread between the bid and asked price of more traditional issuers as such bonds are generally bought, sold, or traded in the secondary market.

Tax Collections

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 ad valorem tax levy constitutes a lien on the property against which taxes are levied in favor of the District. Such lien is on a parity with the liens of all other state and local taxing authorities on such property and may be enforced by foreclosure. However, ad valorem tax collection through foreclosure may be impaired by (a) cumbersome, time-consuming, and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures, (c) market conditions affecting the marketability of taxable property within the District at foreclosure sale of such property, (d) adverse effects on marketability from a taxpayer's limited right to redeem its foreclosed property, (e) sale or transfer of personal property to bona fide purchasers, or (f) insufficient foreclosure proceeds to satisfy the tax liens of all state and local taxing authorities with parity liens on the property.

The District's lien on taxable property can be foreclosed only in a judicial proceeding. Attorneys' fees and other costs of collecting delinquent taxes could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, if proceedings are initiated by or against a District taxpayer pursuant to the Federal Bankruptcy Code, a bankruptcy court with jurisdiction over such bankruptcy could stay the District's collection of delinquent ad valorem taxes assessed against such taxpayer.

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages. Even if such sovereign immunity were waived and a judgment against the District for money damages were obtained, the judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Specifically, the District may voluntarily file a petition for protection from creditors under the federal bankruptcy laws. During the pendency of the bankruptcy proceedings, the remedy of mandamus would not be available to the Registered Owners unless authorized by a federal bankruptcy judge.

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: (a) is generally authorized to file for federal bankruptcy protection by the State law; (b) is insolvent or unable to meet its debts as they mature; (c) desires to effect a plan to adjust such debts; and (d) 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 obtain the approval of the TCEQ prior to filing bankruptcy. Such law requires that the TCEQ investigate the financial condition 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, a 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 Owners could potentially and adversely impair the value of the Registered Owners' claim.

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

A district cannot be placed into bankruptcy involuntarily.

Approval of the Bonds

As required by law, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

Economic Factors

The continued maintenance of taxable values in the District is directly related to the housing and building industry. The housing and building industry has historically been a cyclical industry, affected by both short- and long-term interest rates, availability of mortgage and development funds, labor conditions and general economic conditions including the relative price of oil and natural gas. A return to relatively high mortgage interest rates similar to those experienced in the past may adversely affect the availability and desirability of mortgage financing for new homes, hence reducing demand by homebuilders for lots within the District. Commercial building in the District could also be adversely affected by such economic developments.

Interest rates and the availability of mortgage and development funds have a direct impact on construction activity, particularly the short-term interest rates at which developers and builders are able to obtain financing for development or building costs. Interest rate levels may affect the developers' or builders' ability to complete development or building plans. Long-term interest rates affect home purchasers' ability to qualify for and afford the total financing costs of a new home. The continuation of long-term interest rates at higher levels may negatively affect home sales and the rate of growth of taxable values in the District.

The Houston metropolitan area has, in the past, experienced increased unemployment, business failures and slow absorption of office space. These factors, if they recur, could affect the demand for new residential home construction and commercial development and hence the growth of property values in the District. An oversupply of homes, along with a decreased demand in new housing because of general economic conditions or relatively high interest rates, may have an adverse impact on sale prices for homes and, consequently, may materially adversely affect property values or, in some instances, cause builders to abandon home-building plans altogether.

The housing industry in the Houston area is competitive and the District can give no assurance that current building programs will be completed. The competitive position of the developer in the sale of its developed lots or, respectively, that of present and prospective builders in the construction of single-family residential houses is affected by most of the factors discussed herein. Such a competitive position is directly related to tax revenues to be received by the District and the growth and maintenance of taxable values in the District.

Alternative sites are available for the construction of single-family residential improvements and commercial development within the market area in which the District is located. Such sites could pose competition to the continued home-building development and commercial development on comparable sites within the District.

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.

Use of Net System Revenues

As stated elsewhere in this Official Statement, the Bonds are payable from a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. In addition, the Bonds are secured by a pledge of and a lien on certain net revenues, if any, from the District's waterworks and sanitary sewer system. The District does not anticipate using the net revenues of the District's waterworks and sewer system to provide for annual debt service requirements, nor does the District presently anticipate the need of such net revenues in order to pay, when due, the debt service requirements on the Bonds, the Outstanding Bonds, or the Remaining Outstanding Bonds. See "THE BONDS – Sources of and Security for Payment."

Future Debt

At an election held within the District on May 3, 2003, the District's voters authorized the issuance of \$27,000,000 waterworks and sewer system combination unlimited tax and revenue bonds for the purpose of constructing facilities to serve the District or refunding outstanding bonds of the District. After issuance of the Bonds, the District will have \$16,840,979.15 authorized but unissued waterworks and sewer system combination unlimited tax and revenue bonds remaining. The District has reserved in the Bond Resolution the right to issue the remaining authorized but unissued waterworks and sewer system combination unlimited tax and revenue bonds which have heretofore been authorized by the voters of the District subject to the approval of the Attorney General of the State of Texas, and the Texas Commission on Environmental Quality ("TCEQ") where applicable. According to the Engineer, such bond authorization should be adequate to finance the District's share of development costs to allow for the development of all of the land within the District.

The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Resolution. All of the remaining bonds described above which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See "THE BONDS – Issuance of Additional Debt."

Financing Parks and Recreational Facilities

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park project and issuance of the bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District.

Current law may be changed in a manner to increase the amount of bonds that may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

Continuing Compliance with Certain Covenants

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

Environmental Regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

The District is subject to the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"). The TCEQ renewed the MS4 Permit on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The renewed MS4 Permit contains more stringent requirements than the standards contained in the previous MS4 Permit. The District has submitted all necessary documentation to the TCEQ for MS4 Permit compliance. In order to maintain its current compliance with the TCEQ under the MS4 Permit, the District continues to develop and implement the required plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Unknown future costs associated with these compliance activities may be significant in the future.

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

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

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

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

Conversion to Surface Water

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The District's authority to pump groundwater from its wells is subject to annual permits issued by the Subsidence District. The Subsidence District has adopted a District Regulatory Plan (the "Subsidence District Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the Subsidence District Plan, the District was required to submit to the Subsidence District by January 2003 a groundwater reduction plan and begin construction of surface water conversion infrastructure by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total water demand. This same disincentive fee will be imposed under the Subsidence District Plan (as amended effective January 9, 2013) if the District's groundwater withdrawal exceeds 70% of the District's total water demand beginning January 2010, exceeds 40% of the District's total water demand beginning January 2025, and exceeds 20% of the District's total water demand beginning January 2035. If the District does not meet the Subsidence District's requirements as described above, the District may be required to pay the disincentive fees adopted by the Subsidence District.

The District is located within the North Harris County Regional Water Authority (the "Authority"). The Authority was created to provide for the supply of surface water to north Harris County and to prepare a groundwater reduction plan to comply with the Subsidence District's 1999 plan. The Authority submitted its groundwater reduction plan to the Subsidence District and received approval on June 11, 2003. This plan covers the northern part of Harris County, including the area of the District, and the District should not owe any disincentive fees to the Subsidence District if the plan is carried out. Pursuant to the plan, the Authority entered into a contract with the City of Houston to purchase and treat surface water for delivery to retail water utilities in the Authority's area, including the District. Effective April 1, 2020, the District pays to the Authority a ground water pumpage fee of \$4.25 per 1,000 gallons, and pays a \$4.70 per 1,000 gallons fee to the Authority for the delivery of surface water. Such fees are subject to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to develop additional surface water infrastructure or to further support the Authority's regional surface water conversion effort.

Bond Insurance Investment Considerations

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable bond insurance policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by an issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the policy insurer (the "Bond Insurer") at such time and in such amounts as would have been due absent such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond 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 Bond Insurer and of the ratings on the Bonds insured by the Bond 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 "BOND INSURANCE" herein.

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond 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 Underwriters have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Issuer to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

Severe Weather

The District is located approximately 70 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood 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 would be adversely affected.

The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e., "500-year flood" events) since 2015. If the District were to sustain damage to its facilities as a result of such a storm (or any other severe weather event) requiring substantial repair or replacement, or if substantial damage to taxable property within the District were to occur as a result of a severe weather event, the investment security of the Bonds could be adversely affected.

Hurricane Harvey

The Houston area, including Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. According to information available to the District, the District's System did not sustain any significant damage and there was no interruption of water and sewer service to District customers as a result of Hurricane Harvey. According to information available to the District, no homes in the District experienced flooding as a result of Hurricane Harvey.

Specific Flood Risks

The District may be subject to the following flood risks:

Ponding (or Pluvial) Flooding – 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) Flooding – 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.

Tax Exemption for Property Damaged by Disaster

Effective January 1, 2020, the prior process that gave local taxing jurisdictions the option to request a reappraisal following a disaster was repealed and replaced with a mandatory temporary property tax exemption for qualified property that is in a Governor-declared disaster area and at least 15% damaged. Qualified property includes tangible personal property, improvements to real property, and manufactured homes. Eligible individuals must apply within a specified time frame and, if the disaster occurs after taxes are levied, the taxing unit must take action to authorize the exemption. The amount of the exemption is determined by the percentage level of damage and is prorated based on the date of the disaster. The Appraisal District must perform a damage assessment and assign a percentage rating to determine the amount of the exemption. Any exemption granted under the new provisions expires the first year the property is reappraised. See "TAX PROCEDURES – Valuation of Property for Taxation."

Storm Water

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 and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

PLAN OF FINANCING

Purpose

The Bonds are being issued to currently refund \$4,530,000 principal amount of the District’s Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2015 (the “Refunded Bonds”). Bond proceeds will also be used to pay bond issuance and administrative expenses. The refunding is being implemented in order to produce present value savings in the District’s annual debt service expense.

The District’s currently Outstanding Bonds (the “Remaining Outstanding Bonds”) totaling \$2,245,000 will remain outstanding after the issuance of the Bonds and the refunding of the Refunded Bonds. The Refunded Bonds are scheduled to mature in various amounts on March 1 in the years 2022 through 2037 and will be redeemed at par in advance of each respective maturity. The Refunded Bonds will be redeemed on the date of delivery of the Bonds.

Outstanding Bonds

The District has previously issued ten (10) series of new money bonds (Series 1978, Series 1984, Series 1985, Series 1989, Series 1991, Series 1997, Series 2000, Series 2003-B, Series 2005, and Series 2008) and eight (8) series of refunding bonds (Series 1992, Series 1993, Series 1998, Series 2003, Series 2006, Series 2012, Series 2015, and Series 2020). The following table lists the original principal amount and the amount of bonds outstanding as of January 1, 2021, from such issues, including the bonds being refunded with the proceeds of the Series 2021 Refunding Bonds, and the principal amount outstanding after the implementation of the refunding.

| <u>Original Principal Amount</u> | <u>Series</u> | <u>Principal Amount Outstanding</u> | <u>Principal Amount Outstanding After Issuance of the Bonds</u> |
|---|--|--|--|
| \$4,670,000 | WW & SS Comb U/L & Rev Bonds Series 1978 | \$0 | \$0 |
| \$2,165,000 | WW & SS Comb U/L & Rev Bonds Series 1984 | \$0 | \$0 |
| \$2,145,000 | WW & SS Comb U/L & Rev Bonds Series 1985 | \$0 | \$0 |
| \$1,335,000 | WW & SS Comb U/L & Rev Bonds Series 1989 | \$0 | \$0 |
| \$3,750,000 | WW & SS Comb U/L & Rev Bonds Series 1991 | \$0 | \$0 |
| \$3,684,803 | WW & SS Comb U/L & Rev Ref Bonds Series 1992 | \$0 | \$0 |
| \$4,567,996 | WW & SS Comb U/L & Rev Ref Bonds Series 1993 | \$0 | \$0 |
| \$2,520,000 | WW & SS Comb U/L & Rev Bonds Series 1997 | \$0 | \$0 |
| \$4,922,271 | WW & SS Comb U/L & Rev Ref Bonds Series 1998 | \$0 | \$0 |
| \$5,855,000 | WW & SS Comb U/L & Rev Bonds Series 2000 | \$0 | \$0 |
| \$2,135,000 | WW & SS Comb U/L & Rev Ref Bonds Series 2003 | \$0 | \$0 |
| \$2,725,000 | WW & SS Comb U/L & Rev Bonds Series 2003-B | \$0 | \$0 |
| \$2,035,000 | WW & SS Comb U/L & Rev Bonds Series 2005 | \$0 | \$0 |
| \$7,965,000 | WW & SS Comb U/L & Rev Ref Bonds Series 2006 | \$0 | \$0 |
| \$3,975,000 | WW & SS Comb U/L & Rev Bonds Series 2008 | \$0 | \$0 |
| \$3,430,000 | WW & SS Comb U/L & Rev Ref Bonds Series 2012 | \$0 | \$0 |
| \$7,665,000 | WW & SS Comb U/L & Rev Ref Bonds Series 2015 | \$4,755,000 | \$225,000 |
| <u>\$2,020,000</u> | WW & SS Comb U/L & Rev Ref Bonds Series 2020 | <u>\$2,020,000</u> | <u>\$2,020,000</u> |
| \$67,565,070 | | \$6,775,000 | \$2,245,000 |

Refunded Bonds

Proceeds of the Bonds will be applied to currently refund \$4,530,000 in principal amount of the Refunded Bonds. The principal amounts and maturity dates of the Refunded Bonds to be refunded are set out in the table below, all with maturity dates of March 1 in the years shown.

| | <u>Series 2015 Bonds</u> | |
|------|--------------------------|-----|
| Year | Principal Amount | |
| 2021 | - | |
| 2022 | \$230,000 | |
| 2023 | \$235,000 | |
| 2024 | \$245,000 | (a) |
| 2025 | \$255,000 | |
| 2026 | \$260,000 | |
| 2027 | \$270,000 | (b) |
| 2028 | \$280,000 | |
| 2029 | \$290,000 | |
| 2030 | \$300,000 | (c) |
| 2031 | \$310,000 | |
| 2032 | \$320,000 | (d) |
| 2033 | \$340,000 | |
| 2034 | \$350,000 | |
| 2035 | \$365,000 | (e) |
| 2036 | \$235,000 | |
| 2037 | <u>\$245,000</u> | (f) |
| | \$4,530,000 | |

The Refunded Bonds will be called for redemption on March 25, 2021.

-
- (a) Represents the \$710,000 Term Bond with mandatory sinking fund provisions beginning in 2022 through and including the 2024 maturity.
 - (b) Represents the \$785,000 Term Bond with mandatory sinking fund provisions beginning in 2025 through and including the 2027 maturity.
 - (c) Represents the \$870,000 Term Bond with mandatory sinking fund provisions beginning in 2028 through and including the 2030 maturity.
 - (d) Represents the \$630,000 Term Bond with mandatory sinking fund provisions beginning in 2031 through and including the 2032 maturity.
 - (e) Represents the \$1,055,000 Term Bond with mandatory sinking fund provisions beginning in 2033 through and including the 2035 maturity.
 - (f) Represents the \$480,000 Term Bond with mandatory sinking fund provisions beginning in 2036 through and including the 2037 maturity.

Defeasance of the Refunded Bonds

By the deposit of cash with the Paying Agent for the Refunded Bonds, Zions Bancorporation, National Association (successor to Amegy Bank National Association), the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the resolution authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such a deposit, and in reliance upon the verification report of Robert Thomas CPA, LLC, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding.

Sources and Uses of Funds

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

| Sources of Funds: | |
|---------------------------------|-----------------------|
| Principal Amount of the Bonds | \$4,715,000.00 |
| Plus Net Original Issue Premium | \$36,147.65 |
| Plus Accrued Interest | \$5,382.50 |
| Plus District Cash | \$3,000.00 |
| Total Sources of Funds | \$4,759,530.15 |

| Uses of Funds: | |
|----------------------------|-----------------------|
| Deposit to Refund Bonds | \$4,538,925.42 |
| Issuance Expenses (a) | \$184,574.73 |
| Underwriter's Discount | \$30,647.50 |
| Accrued Interest | \$5,382.50 |
| Total Uses of Funds | \$4,759,530.15 |

(a) Includes municipal bond insurance premium.

THE DISTRICT

Authority

The District is a conservation and reclamation district and a municipal utility district created by the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality ("TCEQ"), on March 1, 1973, and confirmed at an election held within the District on January 5, 1974. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District is empowered to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. Additionally, the District may, subject to certain limitations, develop parks and recreational facilities.

Description

The District originally contained approximately 533 acres. Ten subsequent annexations that included 22 tracts of land ranging in size from 2 acres to 60 acres, totaling approximately 406 acres, increased the size of the District to its present 939 acres. The District is located in northwest Harris County approximately 23 miles from Houston's central business district and lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston. The District is generally bounded on the north by Spring-Cypress Road, on the southeast by Malcomson Road, and on the southwest by Grant Road. Faulkey Gully roughly bisects the District from east to west. The District is relatively flat and wooded, with elevations ranging from 125 to 149 feet above mean sea level ("msl"). The land within the District slopes generally in a southeasterly direction.

Strategic Partnership Agreement

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of July 1, 2004. The Agreement was amended effective December 13, 2010. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use tax, voting in City elections, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA. The term of the SPA is 30 years from the original Agreement. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

Status of Land Development/Land Uses in the District

A summary of the approximate land use in the District as of January 1, 2021, appears in the following table:

| <u>Type of Land Use</u> | <u>Approximate Acres</u> |
|---|---------------------------------|
| Developed and Improved Acres | 878 |
| Acres Remaining to be Developed | 15 |
| Drainage Easements | 12 |
| District Plant Sites | 14 |
| Community Association Site(s) and Other Undevelopable Acres | <u>20</u> |
| Total Approximate Acres | 939 |

Status of Single-Family Development in the District

The approximate tabulation of the single-family residences and vacant developed lots within the District as of January 1, 2021, is as follows:

| <u>Subdivision and Section</u> | <u>Approx. Acreage</u> | <u>Completed Homes (a)</u> | <u>Homes Under Construction</u> | <u>Developed Vacant Lots (a)</u> | <u>Total Lots</u> |
|--|-------------------------------|-----------------------------------|--|---|--------------------------|
| Lakewood Forest, Sections 10,14,15,17 & 18 | 393.28 | 962 | 0 | 0 | 962 |
| Lakewood Glen, Sections 1 & 2 | 110.31 | 351 | 0 | 0 | 351 |
| Lakewood Glen Trails | 48.63 | 174 | 0 | 0 | 174 |
| Lakewood Park Estates | 2.10 | 3 | 0 | 0 | 3 |
| Lakewood Park, Section 2 | 79.10 | 257 | 0 | 0 | 257 |
| Wincrest Falls | 42.38 | 28 | 0 | 0 | 28 |
| Lakewood Hills, Sections 1 & 2 | 19.81 | 84 | 0 | 0 | 84 |
| The Park at Glen Arbor, Sections 1 & 2 | 93.41 | 285 | 0 | 0 | 285 |
| Retreat at Lakewood Forest (b) | 4.86 | 55 | 0 | 0 | 55 |
| Hereford Estates | 10.45 | 8 | 0 | 0 | 8 |
| Villas at Lakewood Park, Section 1 | 12.68 | 90 | 0 | 0 | 90 |
| Villas at Lakewood Park, Section 2 | 12.73 | 71 | 0 | 0 | 71 |
| Enclave at Lakewood | 10.14 | 53 | 0 | 0 | 53 |
| Lakewood Place | 22.31 | <u>213</u> | <u>0</u> | <u>0</u> | <u>213</u> |
| Other Areas (c) | <u>77.11</u> | | | | |
| TOTAL | 939.30 | 2,634 | 0 | 0 | 2,634 |

- (a) Some homes are built on 1.5 or 2 lots.
- (b) Three patio home sites in Retreat at Lakewood Forest were re-platted as single-family homes.
- (c) Includes approximately 34 acres of drainage rights-of-way; a sewage treatment plant site; water plant sites; approximately 14 acres of open spaces; approximately 6 acres improved with or currently being improved with 2 different churches; and approximately 15 additional developable acres.

Commercial Connections

As of January 1, 2021, the commercial development in the District included, but was not limited to, the following: Kroger Signature store and fuel station, four banking centers (Amegy Bank, Bank of America, Chase Bank, and Wells Fargo Bank), three child care facilities (Kindercare, Montessori and Kids 'R' Kids), a medical office, Wendy's, McDonald's, three fuel stations and food marts (Shell, Exxon/Mobil and Texaco), Church's Chicken, Planet Fitness Gym, Kentucky Fried Chicken/Taco Bell, Ace Hardware, Sonic, Walgreen's, CVS Pharmacy, Good Year tire store, Jiffy Lube, R. Terry Councill, DDS, Nationwide Insurance, Lakewood Mini-Storage, a Starbucks, and two car washes. In addition, there are six retail shopping centers (Plazas at Longwood, Cypress Shopping Center, Louetta Shopping Center, Lakewood Park Center, Enchanted Cypress Center and Eldridge Retail Center) and two business centers (Lakewood Business Center and Hereford Professional Building), an office warehouse facility and two additional two-story professional office buildings. The types of businesses included in the retail and business centers were as follows: seven restaurants, a Subway restaurant, two sports grills, ice cream shop, two donut shops, vision center, three family dentists, orthodontics, pediatric center, four insurance agencies, investment service, tax service, two mail centers, realtors' office, builder's office, flooring company, two pool supply stores, two fitness centers, K2 Academy of Kids Sports, dance studio, picture framing store, Dickinson Interiors, Sunday Driver, five nail salons, four hair salons, two day spas, tanning salon, two additional cleaners, Wells Fargo ATM center, two liquor stores, an Auto Zone shop, two personal storage facilities, two assisted living facilities, a pet care center, a veterinary office, a taco company, a sweets/deserts shop, four Redbox video rental stations, a Tae Kwon-Do center, two learning centers, additional space for lease in newly developed centers, custom office spaces for lease and additional businesses, and a Montessori school. Additional commercial development

includes Service First Automotive, Offices of North Eldridge, Spring Cypress Retail, Starbucks, Red Rose Montessori School and an assisted living home.

Management of the District

The District is governed by the Board of Directors, which has control over the supervision of all affairs of the District. All of the Directors either own property or reside within the District. Director’s elections are held within the District in May in odd-numbered years except that such elections may be cancelled if the Directors are unopposed, subject to any approval that might be required by the United States Department of Justice. Directors are elected to serve four-year, staggered terms. The current members and officers of the Board along with their titles are listed below:

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------|------------------------------------|---------------------|
| J. Douglas Allen | President | 2021 |
| Michelle L. Steadman | Vice President | 2023 |
| Bill F. Cheves | Secretary/Assistant Vice President | 2023 |
| John M. Prewitt | Treasurer/Investment Officer | 2021 |
| Mark H. Szyman | Assistant Secretary | 2023 |

The District employs Rebecca Kelly to serve as District Administrator to assist in coordinating the activities of other consultants with whom the District contracts. The District has contracted for utility system operating, bookkeeping, tax assessing and collecting services, engineering, legal, financial advisory and annual auditing of its books as follows:

Tax Assessor/Collector – The District's Tax Assessor/Collector is Assessments of the Southwest, Inc., who is employed under an annual contract to perform the District’s tax collection functions.

Bookkeeper – The District has contracted with L&S District Services, LLC for bookkeeping services.

Auditor – The District's annual financial statements as of and for the year ended March 31, 2020, have been audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's March 31, 2020, audited financial statements.

Utility System Operator – The District has engaged Municipal Operations & Consulting, Inc. to operate and maintain the System.

Engineer – The consulting engineer for the District is IDS Engineering Group (the “Engineer”).

Financial Advisor – The GMS Group, L.L.C., serves as Financial Advisor to the District, and is paid an hourly fee for certain work performed for the District and a contingent fee to be computed on each separate issuance of the bonds, if and when such bonds are delivered.

General Counsel and Bond Counsel – Coats Rose, P.C. serves as Bond Counsel to the District and as General Counsel for the District on matters other than the issuance of bonds. Payment for General Counsel services is based on an hourly fee charge. Bond Counsel is paid a fee from the proceeds of the Bonds; such fee is contingent upon the sale and delivery of the Bonds.

DISTRICT INVESTMENT POLICY

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

THE DEVELOPERS

Role of a Developer

In general, activities of a developer in a municipal utility district such as the District include acquiring land for development; defining a marketing program; planning and scheduling development; securing adequate funds for development; arranging for design and construction of utilities, streets, amenities, and other improvements; participating in the procurement of necessary governmental permits and approvals, including creation of political subdivisions such as the District; and selling developed and undeveloped land to other developers, investors, and others. Ordinarily, the developer pays 100% of the costs of paving and amenity design and construction while the utility district finances certain costs of water supply and distribution,

wastewater collection and treatment, and drainage facilities. The TCEQ generally requires the developer to pay up to 30% of the cost of certain water distribution, wastewater collection, and drainage facilities.

In addition, the developer is ordinarily the major taxpayer within a 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 taxes sufficient to pay debt service and retire bonds.

Developers in the District

At the present time, there is approximately one land developer who owns certain commercial property within the boundaries of the District; such land developer is not among the principal taxpayers in the District. The District makes no representation that such developer's project will be developed or that taxable improvements will be added to the District's taxable valuation.

THE SYSTEM

Regulation

The water, wastewater and storm drainage facilities have been designed in accordance with accepted engineering practices and the rules and regulations of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City of Houston, the Engineering Department of Harris County Flood Control District, and Harris County Engineering Department. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies.

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

Description of the System

The water, wastewater and storm drainage facilities and the accompanying rights of use therein are described below, based upon information obtained from the District's Engineer.

- Water Plants -

The District's current water supply is derived from two water plants. Water Plant No. 1 consists of one 1,800 gallon per minute ("gpm") well pump, one 500,000-gallon storage tank, three 600-gpm-booster pumps and two 25,000-gallon pressure tanks. Water Plant No. 2 consists of one 1,200 gpm well pump, one 500,000-gallon storage tank, four 1,000-gpm-booster pumps and two 25,000-gallon pressure tanks. The third remote water well is producing 1,200 gpm and is connected to Water Plant No. 1. Each water well is equipped with an electric generator. According to the Engineer, the District's water supply facilities have the capacity to serve approximately 2,900 equivalent single-family connections. Water Plant No. 2 receives water from the North Harris County Regional Water Authority (the "Authority"). A 12-inch water supply interconnects with Harris County Municipal Utility District No. 18 is in place. A 3-way interconnect with Northwest Harris County Municipal Utility District No. 5 and Grant Road Public Utility District was terminated since all three districts are connected to a surface water system and a road widening project would have displaced the interconnect.

- Conversion to Surface Water -

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The District's authority to pump groundwater from its wells is subject to annual permits issued by the Subsidence District. The Subsidence District has adopted a District Regulatory Plan (the "Subsidence District Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the Subsidence District Plan, the District was required to submit to the Subsidence District by January 2003 a groundwater reduction plan and begin construction of surface water conversion infrastructure by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total water demand. This same disincentive fee will be imposed under the Subsidence District Plan (as amended effective January 9, 2013) if the District's groundwater withdrawal exceeds 70% of the District's total water demand beginning January 2010, exceeds 40% of the District's total water demand beginning January 2025, and exceeds 20% of the District's total water demand beginning January 2035. If the District does not meet the Subsidence District's requirements as described above, the District may be required to pay the disincentive fees adopted by the Subsidence District.

The District is located within the Authority. The Authority was created to provide for the supply of surface water to north Harris County and to prepare a groundwater reduction plan to comply with the Subsidence District's 1999 plan. The Authority submitted its groundwater reduction plan to the Subsidence District and received approval on June 11, 2003. This plan covers the northern part of Harris County, including the area of the District, and the District should not owe any disincentive fees to the Subsidence District if the plan is carried out. Pursuant to the plan, the Authority entered into a contract with the City of Houston to purchase and treat surface water for delivery to retail water utilities in the Authority's area, including the District. Effective April 1,

2020, the District pays to the Authority a ground water pumpage fee of \$4.25 per 1,000 gallons, and pays a \$4.70 per 1,000 gallons fee to the Authority for the delivery of surface water. Such fees are subject to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to develop additional surface water infrastructure or to further support the Authority's regional surface water conversion effort.

- Wastewater Plant -

The District's wastewater collection and treatment facilities consist of a jointly owned sewage treatment plant with a rated capacity of 1,420,000 gallons per day, 1,234,974 gallons per day of which are owned by the District, and the remaining 185,026 gallons per day capacity owned by Malcomson Road Utility District. According to the Engineer, the District owns operational wastewater treatment capacity capable of serving approximately 3,800 equivalent single-family connections, which should be adequate to serve the District at full build-out.

- Drainage System -

The majority of land in the District drains into Faulkey Gully and further into Cypress Creek. Lakewood Glen, Sections 1 and 2, however, drain into Harris County Flood Control District Unit L103-00-00 to Little Cypress Creek and then into Cypress Creek. Proceeds of certain of the District's Outstanding Bonds were used to construct a network of drainage facilities within Lakewood Forest Sec. 10, Lakewood Forest Sec. 14 and 15, and Lakewood Glen Sec. 1 and 2; two phases of rectification of Harris County Flood Control District Unit L103-00-00 serving Lakewood Glen Sec. 1 and 2; and the rectification of Faulkey Gully. A portion of the proceeds of the District's Series 1991 Bonds were used to retire the District's Series 1991 Bond Anticipation Notes which were issued to finance underground drainage facilities to serve Lakewood Park Sec. 2; improvements to Harris County Flood Control District Unit K-142-03-00 (the "North Ditch"); and drainage facilities for Addicks-Fairbanks Road and Agg Road Extension (now N. Eldridge Parkway). Additionally, certain proceeds of the Series 1991 Bonds were used to reimburse the District's Operating Fund for the purchase of a developer's receivables for the completion of drainage facilities on Hammersmith Drive in Lakewood Forest Sec. 14 and the Partial Replats of Reserves A & C and Reserve B in Lakewood Forest Sec. 15, as well as to finance the District's share of drainage facilities for the Partial Replat of Reserve B in Lakewood Glen Sec. 1.

Harris County has accepted and maintains substantially all of the District's drainage facilities. Certain District drainage facilities have been accepted and will be maintained by homeowners' associations serving the Park at Glen Arbor Subdivision and various gated subdivisions. In addition, Harris County has undertaken certain other drainage projects in the area of the District which should positively affect drainage in the District.

100-Year Flood Plain

According to the Engineer, the Flood Insurance Rate Map ("FIRM") currently in effect published by the Federal Emergency Management Agency which covers the land located in the District indicates that all of the land within the District is located outside the 100-year flood plain with the exception of the limits of Faulkey Gully.

Operating History

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon taxable property in the District and from Net Revenues of the System as defined in the Bond Resolution. The information included in the table below relating to the District's water and sewer system operations is taken from the District's audited financial statements and is provided for information purposes only. The District makes no representation as to Net Revenues that may be available for Debt Service in the future.

| | For Fiscal Years Ended March 31 (a) | | | | |
|---|--|---------------------------|---------------------------|---------------------------|---------------------------|
| REVENUES | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
| Property Taxes | \$1,212,377 | \$1,105,989 | \$1,041,728 | \$1,008,390 | \$1,078,446 |
| Water Service | \$573,690 | \$540,673 | \$598,785 | \$567,227 | \$631,543 |
| Wastewater Service | \$269,277 | \$269,186 | \$269,589 | \$268,070 | \$272,708 |
| Water Authority Fees | \$1,648,508 | \$1,333,193 | \$1,341,474 | \$1,101,250 | \$1,005,463 |
| Penalty and Interest | \$27,880 | \$10,407 | \$11,518 | \$10,807 | \$13,249 |
| Connection/Inspection/Reconnection Fees | \$83,074 | \$86,834 | \$75,215 | \$36,470 | \$19,030 |
| Water Authority Credits | \$618,098 | \$618,098 | \$618,098 | \$618,098 | \$618,098 |
| Sales Tax Revenues | \$251,592 | \$215,320 | \$221,631 | \$232,033 | \$227,978 |
| Sale of Land | - | - | - | - | \$147,849 |
| Investment and Miscellaneous Revenues | \$183,023 | \$163,855 | \$98,937 | \$54,904 | \$48,106 |
| TOTAL REVENUES | <u>\$4,867,519</u> | <u>\$4,343,555</u> | <u>\$4,276,975</u> | <u>\$3,897,249</u> | <u>\$4,062,470</u> |
| EXPENDITURES | | | | | |
| Salaries (including Benefits) | \$31,436 | \$30,803 | \$34,150 | \$24,733 | \$25,920 |
| Professional Fees | \$200,328 | \$221,864 | \$336,814 | \$57,909 | \$73,917 |
| Contracted Services | \$306,698 | \$276,103 | \$253,303 | \$239,161 | \$237,798 |
| Purchased Water Service | \$1,134,211 | \$941,067 | \$937,323 | \$836,036 | \$674,073 |
| Purchase Wastewater Service | \$459,133 | \$484,723 | \$460,273 | \$457,931 | \$448,128 |
| Utilities | \$88,737 | \$90,799 | \$100,639 | \$102,743 | \$122,469 |
| Repairs and Maintenance | \$1,549,322 | \$386,511 | \$417,127 | \$268,119 | \$141,519 |
| Water Authority Pumpage Fees | \$489,366 | \$415,303 | \$442,207 | \$326,208 | \$307,416 |
| Other | \$209,096 | \$171,680 | \$198,555 | \$157,890 | \$159,017 |
| Capital Outlay | \$561,547 | \$52,317 | \$582,110 | \$434,071 | \$266,733 |
| TOTAL EXPENDITURES | <u>\$5,029,874</u> | <u>\$3,071,170</u> | <u>\$3,762,501</u> | <u>\$2,904,801</u> | <u>\$2,456,990</u> |
| OTHER FINANCING SOURCES (USES) | <u>(\$140,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | <u>(\$302,355)</u> | <u>\$1,272,385</u> | <u>\$514,474</u> | <u>\$992,448</u> | <u>\$1,605,480</u> |
| BEGINNING FUND BALANCE | <u>\$9,683,971</u> | <u>\$8,411,586</u> | <u>\$7,897,112</u> | <u>\$6,904,664</u> | <u>\$5,299,184</u> |
| ENDING FUND BALANCE (b) | <u>\$9,381,616</u> | <u>\$9,683,971</u> | <u>\$8,411,586</u> | <u>\$7,897,112</u> | <u>\$6,904,664</u> |

(a) Data is taken from the District's audited financial statements. See "APPENDIX A."

(b) As of January 21, 2021, the District's General Fund had an unaudited cash and investment balance of approximately \$9,502,100. For the fiscal year ending March 31, 2021, the District's General Fund is currently budgeting revenues of approximately \$4,703,719 and operating expenditures of approximately \$3,230,257. Additionally, for the fiscal year ending March 31, 2021, the District's General Fund is currently budgeting capital expenditures of approximately \$5,790,310; such budgeted amount for capital expenditures represent certain rehabilitation and improvement projects relative to the District's System and may be expended over the course of several fiscal years.

DISTRICT DEBT
(unaudited)

| | | |
|--|---------------------|-----|
| 2020 Certified Taxable Value | \$659,954,744 | (a) |
| Direct Debt | | |
| Remaining Outstanding Bonds | \$2,245,000 | (b) |
| The Bonds | <u>\$4,715,000</u> | |
| Total Direct Debt | <u>\$6,960,000</u> | |
| Estimated Overlapping Debt | <u>\$40,181,999</u> | (c) |
| Direct and Estimated Overlapping Debt | \$47,141,999 | |
| Percentage of Direct Debt to: | | |
| 2020 Certified Taxable Value | 1.05% | |
| Percentage of Direct and Estimated Overlapping Debt to: | | |
| 2020 Certified Taxable Value | 7.14% | |
| 2020 Tax Rate Per \$100 of Assessed Value: | | |
| Debt Service | \$0.179 | |
| Maintenance Tax | <u>\$0.193</u> | |
| Total 2020 Tax Rate | <u>\$0.372</u> | |
| General Fund Cash and Investment Balance as of January 21, 2021 | \$9,502,100 | (d) |
| Debt Service Fund Cash and Investment Balance as of January 21, 2021 | \$1,252,729 | (e) |

-
- (a) Reflects the Certified Taxable Valuation as of January 1, 2020, according to data supplied by HCAD. The taxable value reflected above includes \$628,844,493 of taxable value that is currently certified on the appraisal roll and \$31,110,251 of uncertified taxable value that is under protest and, therefore, still in the certification process. The \$31,110,251 of uncertified taxable value represents HCAD's estimate of the total taxable value that will be assigned to such properties if the owners' claims are upheld by the Harris County Appraisal Review Board. See "TAX DATA – Analysis of Tax Base" and "TAX PROCEDURES."
- (b) Excludes the Refunded Bonds. See "PLAN OF FINANCING – Outstanding Bonds."
- (c) See "Estimated Overlapping Debt" herein.
- (d) Unaudited figure per the District's records. See "THE SYSTEM – Operating History."
- (e) Unaudited figure per the District's records. Neither Texas law nor the District's Bond Resolution requires that the District maintain any particular balance in the Debt Service Fund. See "TAX DATA – Tax Rate Calculations."

Estimated Overlapping Debt

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

| <u>Taxing Jurisdiction</u> | <u>Outstanding Debt</u> | <u>Overlapping Debt</u> | |
|--|-------------------------|-------------------------|---------------------|
| | | <u>Percent</u> | <u>Amount</u> |
| Cypress-Fairbanks Independent School District | \$3,358,360,000 | 0.59% | \$19,814,324 |
| Tomball Independent School District | \$615,180,000 | 2.57% | \$15,810,126 |
| Harris County (a) | \$1,364,692,125 | 0.13% | \$1,774,099 |
| Lone Star College System District | \$542,290,000 | 0.29% | \$1,572,641 |
| Harris County Flood Control District | \$334,270,000 | 0.13% | \$434,551 |
| Port of Houston Authority | \$492,439,397 | 0.13% | \$640,171 |
| Harris County Hospital District | \$86,050,000 | 0.13% | \$111,865 |
| Harris County Department of Education | \$20,185,000 | 0.12% | <u>\$24,222</u> |
| Total Estimated Overlapping Debt | | | \$40,181,999 |
| The District's Direct Debt (b) | | | <u>\$6,960,000</u> |
| Total Direct and Estimated Overlapping Debt | | | \$47,141,999 |

(a) Excludes the currently outstanding Harris County Toll Road Bonds, which are considered to be self-supporting.

(b) Excludes the Refunded Bonds; includes the Bonds.

TAX DATA

2020 Debt Service/Maintenance Tax

In 2020, the District levied a tax of \$0.179 per \$100 of assessed valuation for debt service purposes. In addition, the District levied a tax of \$0.193 per \$100 of assessed valuation for maintenance purposes. The proceeds of the maintenance tax are deposited into the District's General Operating Fund and are used to pay certain operating costs.

Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the exemptions for 2016 through 2020.

| <u>Year</u> | <u>Type of Property</u> | | | <u>Assessed Valuations</u> | <u>Exemptions</u> | <u>Taxable Valuations (a)</u> |
|-------------|-------------------------|---------------------|--------------------------|----------------------------|-------------------|-------------------------------|
| | <u>Land</u> | <u>Improvements</u> | <u>Personal Property</u> | | | |
| 2020 | \$164,085,441 | \$584,124,139 | \$20,558,207 | \$768,767,787 | \$139,923,294 | \$628,844,493 (b) |
| 2019 | \$150,669,657 | \$607,516,773 | \$23,436,080 | \$781,622,510 | \$143,577,367 | \$638,045,143 |
| 2018 | \$142,625,609 | \$593,668,853 | \$18,946,880 | \$755,241,342 | \$139,511,161 | \$615,730,181 |
| 2017 | \$139,978,353 | \$589,948,439 | \$20,388,515 | \$750,315,307 | \$140,858,223 | \$609,457,084 |
| 2016 | \$134,956,621 | \$586,618,128 | \$21,037,121 | \$742,611,870 | \$146,369,298 | \$596,242,572 |

(a) Reflects the gross Assessed Valuation supplied by HCAD less exemptions.

(b) Reflects the Certified Taxable Valuation as of January 1, 2020, according to data supplied by HCAD; such value excludes approximately \$31,110,251 of uncertified taxable value that is under protest and, therefore, still in the certification process. See "TAX PROCEDURES."

Principal Taxpayers

The list of principal taxpayers for 2020 and the other information in this table were provided by the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions. This information does not reflect any corrections subsequent to action of the Appraisal District.

| <u>Taxpayer</u> (a) (b) | <u>Type of Property</u> | <u>2020 Valuation</u> | <u>Percent of Total</u> |
|--|--------------------------------|------------------------------|--------------------------------|
| Kroger Company | Commercial/Personal Property | \$9,833,482 | 1.49% |
| SW Louetta LLC | Commercial | \$7,200,209 | 1.09% |
| Cypress Village Cypress TX LLC | Commercial | \$7,153,205 | 1.08% |
| Plaza at Longwood Ltd | Commercial | \$6,235,611 | 0.94% |
| Dahn America 360 Storage II Dst | Commercial | \$5,721,938 | 0.87% |
| Louetta Shopping Center Houston TX Ltd | Commercial | \$5,330,271 | 0.81% |
| Ashco Investments LLC | Commercial | \$5,115,208 | 0.78% |
| Steen Grandchildren Trust | Commercial | \$4,727,499 | 0.72% |
| Robert & Norma Oneal Family | Commercial | \$4,220,237 | 0.64% |
| Evans KRK Academy LLC | Commercial | \$2,290,645 | 0.35% |
| TOTALS | | \$57,828,305 | 8.76% |

- (a) Reflects information obtained from HCAD records. The District makes no representation as to the accuracy of such information.
- (b) According to the District's Tax Assessor/Collector, all of the District's top 10 taxpayers are current on their taxes owed to the District for all years prior to the 2020 tax year. The District's 2020 tax levy is in the process of collections; such taxes become delinquent if not paid before February 1, 2021. See "Levy and Collection" herein and "TAX PROCEDURES."

Levy and Collection

The following represents the collection history of District taxes for the years 2016 through 2020.

| <u>Tax Year</u> | <u>Taxable Valuation</u> (a) | <u>Tax Rate</u> (b) | <u>Tax Levy</u> | <u>Cumulative Tax Collections</u> (c) | <u>Tax Year Ended September 30</u> |
|------------------------|-------------------------------------|----------------------------|------------------------|--|---|
| 2020 | \$659,954,744 (d) | \$0.372 | \$2,455,032 | (e) | 2021 |
| 2019 | \$638,045,143 | \$0.372 | \$2,373,528 | 100% | 2020 |
| 2018 | \$615,730,181 | \$0.380 | \$2,339,775 | 100% | 2019 |
| 2017 | \$609,457,084 | \$0.380 | \$2,315,937 | 100% | 2018 |
| 2016 | \$596,242,572 | \$0.380 | \$2,265,722 | 100% | 2017 |

- (a) Represents the net taxable value. The Board has granted a 20% homestead exemption since 1984.
- (b) Includes the debt service tax rate and maintenance tax rate. See "Tax Distribution" herein.
- (c) According to the District's records, the current tax collections have averaged approximately 98% for the past five years.
- (d) Reflects the Certified Taxable Valuation as of January 1, 2020, according to data supplied by HCAD. The taxable value reflected above includes \$628,844,493 of taxable value that is currently certified on the appraisal roll and \$31,110,251 of uncertified taxable value that is under protest and, therefore, still in the certification process. The \$31,110,251 of uncertified taxable value represents HCAD's estimate of the total taxable value that will be assigned to such properties if the owners' claims are upheld by the Harris County Appraisal Review Board. See "TAX PROCEDURES."
- (e) The District's 2020 tax levy is in the process of collections; such taxes become delinquent if not paid before February 1, 2021. See "TAX PROCEDURES."

Tax Distribution

The following table sets forth the tax rate distribution of the District for the years 2016 through 2020.

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Debt Service | \$0.179 | \$0.181 | \$0.199 | \$0.210 | \$0.210 |
| Maintenance/Operation | \$0.193 | \$0.191 | \$0.181 | \$0.170 | \$0.170 |
| Total | \$0.372 | \$0.372 | \$0.380 | \$0.380 | \$0.380 |

Maintenance Tax

The District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements. The District is authorized to levy such a maintenance tax in an amount not to exceed \$0.50 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 Outstanding Bonds, and any tax bonds which may be issued in the future.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation which would be required to meet certain debt service requirements if no growth in the District occurs beyond the District's 2020 Certified Taxable Valuation as provided by HCAD and the District's Tax Assessor/Collector. The calculations further assume the collection of 95% of taxes levied and the issuance of no additional bonds.

| | |
|---|-----------|
| Maximum Annual Debt Service Requirement (2033) | \$534,481 |
| Tax rate of \$0.09 on the 2020 Certified Taxable Valuation produces | \$564,261 |

Estimated Overlapping Taxes

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

Set forth below are all 2020 taxes levied by such taxing jurisdictions, assuming each assesses at 100% basis of assessment. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy of entities other than political subdivisions.

| <u>Taxing Jurisdictions</u> | <u>2020 Tax Rate Per \$100 Assessed Valuation</u> |
|--|---|
| Harris County (a) | \$0.604193 |
| Cypress-Fairbanks ISD (b) | \$1.355500 |
| Lone Star College System District | \$0.107800 |
| H.C. Emergency Service District No. 13 | \$0.100000 |
| H.C. Emergency Service District No. 11 | <u>\$0.033334</u> |
| Overlapping Taxes | <u>\$2.200827</u> |
| The District (c) | <u>\$0.372000</u> |
| Total Direct and Overlapping Tax Rate | <u>\$2.572827</u> |

- (a) Includes taxes levied by Harris County, Port of Houston Authority, Harris County Flood Control District, Harris County Hospital District, and Harris County Department of Education.
- (b) Lakewood Forest, Sections 14, 15, 17 and 18, Lakewood Park, Section 2, Lakewood Estates, Lakewood Hills, Sections 1 and 2, the Park at Glen Arbor, and the Retreat at Lakewood Forest are within the Tomball Independent School District and Harris County Emergency Service District No. 16 (not Harris County Emergency District No. 13). Tomball Independent School District levied a 2020 tax rate of \$1.290000 per \$100 assessed valuation and Harris County Emergency District No. 16 levied a 2020 tax rate of \$0.050000; the total estimated tax rate for such portion of the District is \$2.557327 per \$100 assessed valuation as opposed to the \$2.572827 figure noted above.
- (c) Includes the debt service tax rate and maintenance tax rate. See "Tax Distribution" herein.

TAX PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal and interest on the Bonds and any additional bonds payable from taxes that the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. See "INVESTMENT CONSIDERATIONS – Future Debt." The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully in this Official Statement under the caption "THE BONDS – Source of and Security for Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District

and its water and wastewater system and for the payment of certain contractual obligations if authorized by the voters in the District. See "TAX DATA – Maintenance Tax."

Tax Code and County-Wide Appraisal District

The Texas Tax Code (the "Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Tax Code are complex and are not fully summarized here. The Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units in a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. Each Appraisal District has the responsibility for appraising property for all taxing units within its respective county. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to, property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares, and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and of certain disabled persons, and travel trailers, to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of \$5,000 to \$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 the exemption for the full amount of the residential homestead. The District has granted a \$20,000 exemption for persons age 65 and older and disabled persons for the current tax year.

Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied including the surviving spouse of a disabled veteran who would have qualified for such exemption if it had been in effect on the date the disabled veteran died. 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 homesteads in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization at no cost to the veteran. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

Residential Homestead Exemptions. The Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the assessor and collector of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. The District has granted a 20% residential homestead exemption each year since 1984, including the 2020 tax year.

Freeport Goods and Goods-in-Transit Exemptions. A "Freeport Exemption" applies to goods, wares, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas that are destined to be forwarded outside of Texas and that are detained in Texas for assembling, storing, manufacturing, processing, or fabricating for fewer than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property that are covered by the Freeport Exemption, if, for tax year 2011 and prior

applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on 100% of market value, as such is defined in the Tax Code. A residence homestead is required to be appraised solely on the basis of its value as a residence homestead regardless of whether residential use is considered to be the highest and best use of the property.

The Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business are 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 the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation, and the chief appraiser is required by the Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

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

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Rollback of Operations and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback 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, subject to certain homestead exemptions, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

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

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

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

Delinquent Tax Payments for Disaster Areas

Taxpayers for homesteads and small businesses damaged as a direct result of a disaster may pay property taxes on the property in four equal quarterly installments by notice to the District before the delinquency date without penalty or interest. Installments must be completed within six months of the delinquency date, which normally is February 1 but could be delayed because of delayed valuations. Quarterly payments by a substantial number of owners could adversely affect a District's collection of taxes for debt services in the year following a disaster.

After January 1, 2020, a district may adopt an exemption for a portion of the value of property damaged by a declared national disaster based on the percentage of damage to the property.

District's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. 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 and land designated for agricultural use and six months for all other property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within six months for commercial property, within two years for residence homesteads and land designated for agricultural use, and six months for all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records), or by bankruptcy proceedings that restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS – Tax Collections."

ANNEXATION AND CONSOLIDATION

Under existing Texas law, the unincorporated area contiguous to the corporate limits of any city comprises that city's extra-territorial jurisdiction ("ETJ"). The extent of a city's ETJ depends upon the city's population. For the City of Houston, the ETJ consists of all the contiguous unincorporated areas, not a part of any other city, within five (5) miles of its corporate limits, and includes all of the land within the District. Chapter 43 of the Local Government Code provides generally that a city may not annex an area in a district unless it annexes the entire part of the district that is outside of the city's boundaries. Once a district is annexed, the annexing municipality takes over all of the property and assets of the district, assumes all debts, liabilities, and obligations of the district (including the Bonds), and performs all of the functions of the district, including the provision of services. With certain exceptions, a city may annex territory only within the confines of its ETJ. When a city annexes additional territory, the city's ETJ expands in conformity with such annexation. A city's authority to annex territory depends on such city's classification as a "Home-Rule" or a "general law" municipality. For a Home-Rule city, such as the City of Houston, authority to annex is relatively unrestricted and in most instances voter approval is not required. No representation is made that the City of Houston will ever annex the District. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur. See "THE DISTRICT – Strategic Partnership Agreement."

Generally, the District may be annexed by the City of Houston without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed,

and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation.

The Bond Resolution also reserves the right of the District to consolidate with other districts and, in connection therewith, to provide for the consolidation of the System with the water and sewer systems of the district or districts with which it is consolidating. The Net Revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will ever consolidate with another district or consolidate the System with other systems.

THE BONDS

General

The Bond Resolution authorizes the issuance and sale of the Bonds and prescribes terms, conditions, and provisions for the payment of the principal of, and interest, on the Bonds by the District. Set forth below is a summary of certain provisions of the Bond Resolution. Capitalized terms in such summary are used as defined in the Bond Resolution. Such summary is not a complete description of the entire Bond Resolution and is qualified in its entirety by reference to the Bond Resolution, a copy of which is available from the District's Bond Counsel upon request.

The Bonds will be dated and will bear interest from March 1, 2021, at the per annum rates shown on the cover page hereof. The Bonds are fully registered, serial bonds maturing on March 1 in the years and in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable September 1, 2021, and each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Record Date on the Bonds is the 15th day of the calendar month next preceding the interest payment date.

The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of the principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, 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 beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

In the event that the Book-Entry-Only System is discontinued, interest on the Bonds shall be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar to the registered owners ("Registered Owners") as shown on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Optional Redemption

The Bonds scheduled to mature on or after March 1, 2027, are subject to redemption prior to scheduled maturity at the option of the District, in whole or from time to time in part, on March 1, 2026, and on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the redemption date. In the event the Bonds are to be redeemed in part, the maturities and principal amounts to be redeemed shall be selected by the District. In the event of redemption of fewer than all of the Bonds of a particular maturity, the Paying Agent/Registrar, on behalf of the District, will select the Bonds of such maturity to be redeemed by lot or by such other customary method, in integral multiples of \$5,000 in any one maturity, as the Paying Agent/Registrar deems fair and appropriate or while the Bonds are in Book-Entry-Only form the portions to be redeemed shall be selected by DTC in accordance with its procedures.

Mandatory Redemption

The Bonds maturing on March 1 in the year 2037 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown on the table below.

\$435,000 Term Bonds, due March 1, 2037

| <u>Mandatory Redemption Date</u> | <u>Principal Amount</u> |
|---|--------------------------------|
| March 1, 2036 | \$215,000 |
| March 1, 2037 (maturity) | \$220,000 |

Notice of Redemption; Partial Redemption

While the Bonds are in book-entry-only form, pursuant to the Bond Resolution, the Term Bonds will be scheduled for annual mandatory sinking fund redemption by DTC in accordance with its procedures. If the book-entry-only system is discontinued, the Paying Agent/Registrar shall select by lot the Term Bonds, if any, to be redeemed and issue a notice of redemption in the manner provided below. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the

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

Notice of each exercise of the right of redemption will be given at least 30 calendar days prior to the date fixed for redemption by the mailing of a notice by the Paying Agent/Registrar to each of the registered owners of the Bonds to be redeemed at the address shown on the records of the Paying Agent/Registrar on the date which is 45 calendar days prior to the redemption date. When Bonds have been called for redemption, the right of the registered owners of such Bonds to collect interest which would otherwise accrue after the date for redemption will be terminated.

The Bonds of a denomination larger than \$5,000 in principal amount may be redeemed in part (\$5,000 in principal or any integral multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal.

Authority for Issuance

The Bonds are issued pursuant to an election held on May 3, 2003. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Resolution; Article XVI, Section 59 of the Texas Constitution; the laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1207, Texas Government Code, as amended; and City of Houston Ordinance No. 97-416.

Sources of and Security for Payment

In the Bond Resolution the District covenants to levy a tax sufficient in rate and amount to pay principal of and interest on the Bonds when due, full allowance being made for delinquencies and costs of collection, and the District undertakes to collect such tax. The net proceeds from taxes levied for debt service purposes will be deposited in the District's Debt Service Fund and will be used to pay principal of and interest on the Bonds and on any additional bonds payable from taxes which the District may hereafter issue. In addition, the Bonds are secured by a pledge of the net revenues, if any, of the District's waterworks and sewer system.

Defeasance

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

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

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

Funds

The Bond Resolution confirms the previous establishment of the District's Debt Service Fund. The Debt Service Fund is to be kept separate from all other funds of the District and used for payment of debt service on the Bonds, the Outstanding Bonds, and any of the District's duly authorized additional bonds. Amounts on deposit in the Debt Service Fund may also be used to pay

the fees and expenses of the Paying Agent/Registrar and to pay the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any additional bonds.

Paying Agent/Registrar

Pursuant to the Bond Resolution, the initial paying agent and initial registrar with respect to the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The District will maintain at least one Registrar where the Bonds may be surrendered for transfer and/or for exchange or replacement for other Bonds and for the purpose of maintaining the Bond Register on behalf of the District. The Registrar is required at all times to be a duly qualified banking corporation or association organized and doing business under the laws of the United States of America, or of any state thereof, and subject to supervision or examination by federal or state banking authorities.

The District reserves the right and authority to change any paying agent/registrar and, upon any such change, the District covenants and agrees in the Bond Resolution to promptly cause written notice thereof, specifying the name and address of such successor paying agent/registrar, to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid.

Registration and Transfer

In the event the Book-Entry-Only System should be discontinued, the Bonds will be transferable only on the Bond Register kept by the Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the operations office of the Registrar in Dallas, Texas. See "BOOK-ENTRY-ONLY SYSTEM" below for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds. Every Bond presented or surrendered for transfer is required to be duly endorsed, or be accompanied by a written instrument of transfer, in a form satisfactory to the Registrar. Neither the Registrar nor the District is required to: (1) transfer or exchange any Bond during the period beginning at the opening of business on a Record Date (defined herein) and ending at the close of business on the next succeeding interest payment date or (2) transfer or exchange any Bond selected for redemption in whole or in part within thirty calendar days of the redemption date. No service charge will be made for any transfer or exchange, but the District or the Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System is discontinued, the District has agreed to replace mutilated, destroyed, lost, or stolen Bonds, upon surrender of the mutilated Bonds or receipt of satisfactory evidence of such destruction, loss, or theft and receipt by the District and the Registrar of security or indemnity as may be required by either of them to keep them harmless. The District will require payment of taxes, governmental charges, and expenses in connection with any such replacement.

Issuance of Additional Debt

If authorized by the District's voters and with the approval of the TCEQ, the District may issue bonds necessary to provide and maintain improvements for which the District was created. See "THE DISTRICT." At an election held in the District on May 3, 2003, the District's voters authorized the issuance of \$27,000,000 waterworks and sewer system combination unlimited tax and revenue bonds, of which \$16,840,979.15 will remain authorized but unissued after the sale of the Bonds for the purpose of providing waterworks, sanitary sewer, and drainage facilities to the land within the District or refunding bonds previously sold by the District. See "INVESTMENT CONSIDERATIONS – Future Debt." The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be issued by the District, and in the Bond Resolution the District reserves the right to issue additional unlimited tax bonds, unlimited tax and revenue bonds, revenue bonds, and inferior lien bonds.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Securities is to be transferred and how the principal of, premium, if any, Maturity Value, and interest on the Securities are to be paid to and credited by DTC while the Securities 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, the Financial Advisor, and the Underwriter believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

The District and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Securities, 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 Securities), 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 United States 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, New York, will act as securities depository for the Securities. The Securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each

maturity of the Securities, each in the aggregate principal amount or Maturity Value, as the case may be, of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities. 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 Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, who will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Securities 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 securities representing their ownership interests in Securities except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners.

The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, 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/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor or the Underwriter takes any responsibility for the accuracy thereof. Termination by the District of the DTC Book-Entry-Only System may require consent of DTC Participants under DTC Operational Arrangements.

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 authorities, 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 authorities, 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 Authority (including the Bonds) are eligible as collateral for public funds.

LEGAL MATTERS

Legal Opinion

The District will furnish to the Underwriters a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds. Such transcript will include the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of the Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax, levied without limit as to rate or amount, upon all taxable property in the District. The District will also furnish to the Underwriters the approving legal opinion of Coats Rose, P.C., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Special Tax Counsel will further state that interest on the Bonds is excludable from gross income for federal income tax purposes under existing law. The fees of Bond Counsel and Special Tax Counsel for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds.

Legal Review

Bond Counsel has reviewed the information appearing in the Official Statement under “PLAN OF FINANCING – Defeasance of the Refunded Bonds,” “THE DISTRICT – Authority,” “TAX PROCEDURES,” “ANNEXATION AND CONSOLIDATION,” “THE BONDS,” “LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” “LEGAL MATTERS – Legal Opinion” (to the extent such section relates to the opinion of Bond Counsel), “– Legal Review,” “REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS,” and “CONTINUING DISCLOSURE OF INFORMATION – SEC RULE 15c2-12,” solely to determine whether such information fairly summarizes the procedures and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of any of the other information contained herein. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein, other than the matters discussed immediately above.

Coats Rose, P.C. also serves as general counsel to the District on matters other than the issuance of bonds and is paid on an hourly basis for such services rendered. The legal fees paid to Bond Counsel for services rendered in connection with issuance of the Bonds are based on a percentage of the Bonds actually issued, sold, and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

No Material Adverse Change

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

TAX MATTERS

Opinion

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

In rendering its opinion, Special Tax Counsel to the Issuer will rely upon (a) the Issuer's federal tax certificate and the verification report prepared by Robert Thomas CPA, LLC, and (b) covenants of the Issuer with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the Issuer to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Special Tax Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Special Tax Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

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

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds have not been registered or qualified 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 qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated 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 provisions.

VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS

Robert Thomas CPA, LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash deposited to pay the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds, (b) the mathematical computations related to certain requirements of the City of Houston Ordinance No. 97-416, as amended, and (c) the mathematical computations of yield used by Special Tax Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes. Robert Thomas CPA, LLC will express no opinion on the assumptions provided to it, nor as to the exemption from taxation of the interest on the Bonds.

Robert Thomas CPA, 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, Robert Thomas CPA, LLC has relied on any information provided to it by the District's retained advisors, consultants or legal counsel.

NO LITIGATION CERTIFICATE

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to the best of their knowledge threatened, either in state or federal courts, contesting or attacking the Bonds, restraining or enjoining the levy, assessment and collection of ad valorem taxes which are pledged to the payment of the Bonds or in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds or affecting the validity of the Bonds or the title of the present officers and directors of the District.

CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12

In the Bond Resolution (defined herein), the District has 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 material events, to the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data to EMMA annually.

The information to be updated with respect to the District includes the quantitative financial information and operating data of the District the general type included in "DISTRICT DEBT," "TAX DATA," and "APPENDIX A" (Audited Financial Statements of the District) of this Official Statement. The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2021. The District will provide the updated information to EMMA.

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

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District or other obligated person within the meaning of 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, or the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the obligated person, any of which reflect financial difficulties. The term "financial obligation" in the immediately preceding paragraphs (15) and (16) means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution make any provisions for debt service reserves, liquidity enhancement, the pledge of property (other than ad valorem tax revenues) to secure payment of the Bonds, or appointment of a trustee. 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

The District has agreed to provide the foregoing updated information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of material 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 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, if 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 the Rule, taking into account any amendments and interpretations of the Rule 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 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 such rule 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 reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five years, in all material respects, the District has complied with the covenants made as a part of its prior continuing disclosure agreements pursuant to SEC Rule 15c2-12.

SOURCES OF INFORMATION

General

The information contained in this Official Statement has been obtained primarily from the District's records, the District's Engineer, the Developers in the District, the District's Tax Assessor/Collector and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described under "CERTIFICATION OF OFFICIAL STATEMENT" below. The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included 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.

Regulation of Issuance

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas neither guarantees nor passes upon the safety of the Bonds as an investment nor passes upon the adequacy or accuracy of the information contained in this Official Statement.

Financial Advisor

The GMS Group, L.L.C. 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 for the sale of the Bonds. In its capacity as Financial Advisor, The GMS Group, L.L.C. has compiled and edited this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

In approving this Official Statement, the District has relied upon the following consultants.

Engineer – The information contained in this Official Statement relating to engineering matters generally and to the description of the System and, in particular, the engineering information included in the sections captioned "THE DISTRICT" and "THE SYSTEM" has been provided and reviewed by IDS Engineering Group and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Tax Assessor/Collector – The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning the valuations contained in the sections captioned "TAX DATA," "TAX

PROCEDURES," and "DISTRICT DEBT" has been provided by Assessments of the Southwest, Inc. Such information has been included herein in reliance upon their authority as an expert in the field of tax assessing and collecting.

Auditor – The financial statements of the District as of March 31, 2020, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot PLLC, independent auditors, as shown in their report appearing herein. See "APPENDIX A."

Updating of Official Statement

The District will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information comes to its attention, to the other matters described in the Official Statement until the delivery of the Bonds to the Underwriter. All information with respect to the resale of the Bonds shall be the responsibility of the Underwriter.

Continuing Availability of Financial Information

Pursuant to Texas law, the District has its financial statements prepared in accordance with generally accepted accounting principles and has its financial statements audited by a certified public accountant in accordance with generally accepted auditing standards within 120 days after the close of its fiscal year. The District audit report is filed with the TCEQ within 135 days after the close of its fiscal year. Copies of each audit report are also filed in the office of the District and with the City Secretary or other designated City officials of the City of Houston.

The District's financial records and audit reports are available for public inspection during regular business hours at the office of the District, and copies will be provided on written request, to the extent permitted by law, upon payment of copying charges. Requests for copies should be addressed to the District in care of Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046.

CERTIFICATION OF OFFICIAL STATEMENT

The District, acting through its Board in its official capacity, hereby certifies as of the date hereof that the information, statements and descriptions 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 facts 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 Board has no reason to believe that said information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement is duly certified and approved by the Board of Directors, Faulkey Gully Municipal Utility District, as of the date specified on the first page hereof.

APPENDIX A
FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE YEAR ENDED
MARCH 31, 2020

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
HARRIS COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
MARCH 31, 2020

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2020

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McCALL GIBSON SWEDLUND BARFOOT PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Faulkey Gully Municipal
Utility District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Faulkey Gully Municipal Utility District (the "District"), as of and for the year ended March 31, 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 March 31, 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 Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and Special Revenue Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

July 16, 2020

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2020**

Management's discussion and analysis of Faulkey Gully Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended March 31, 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, liabilities and, if applicable, deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, sales tax revenues, operating costs and general expenditures. The Special Revenue Fund accounts for financial activities of the joint wastewater treatment facilities. 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.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2020**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). Budgetary comparison schedules are included as RSI for the General Fund and the Special Revenue Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$22,219,618 as of March 31, 2020. A portion of the District's net position reflects its investment in capital assets (water, wastewater and drainage facilities as well as land, buildings and equipment, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

| | Summary of Changes in the Statement of Net Position | | |
|---|---|---------------|----------------------------------|
| | 2020 | 2019 | Change Positive (Negative) |
| Current and Other Assets | \$ 17,699,375 | \$ 17,239,952 | \$ 459,423 |
| Capital Assets (Net of Accumulated Depreciation) | 11,825,151 | 11,793,160 | 31,991 |
| Total Assets | \$ 29,524,526 | \$ 29,033,112 | \$ 491,414 |
| Deferred Outflows of Resources | \$ 178,603 | \$ 189,150 | \$ (10,547) |
| Bonds Payable | \$ 6,734,213 | \$ 7,071,824 | \$ 337,611 |
| Other Liabilities | 749,298 | 425,088 | (324,210) |
| Total Liabilities | \$ 7,483,511 | \$ 7,496,912 | \$ 13,401 |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ 5,269,541 | \$ 4,910,486 | \$ 359,055 |
| Restricted | 777,066 | 92,591 | 684,475 |
| Unrestricted | 16,173,011 | 16,722,273 | (549,262) |
| Total Net Position | \$ 22,219,618 | \$ 21,725,350 | \$ 494,268 |

The following table provides a summary of the District's operations for the years ended March 31, 2020, and March 31, 2019.

| | Summary of Changes in the Statement of Activities | | |
|---------------------------------|---|---------------|----------------------------------|
| | 2020 | 2019 | Change Positive (Negative) |
| Revenues: | | | |
| Property Taxes | \$ 2,368,542 | \$ 2,333,314 | \$ 35,228 |
| Charges for Services | 2,689,051 | 2,371,231 | 317,820 |
| Other Revenues | 803,461 | 761,986 | 41,475 |
| Total Revenues | \$ 5,861,054 | \$ 5,466,531 | \$ 394,523 |
| Expenses for Services | 5,366,786 | 4,012,848 | (1,353,938) |
| Change in Net Position | \$ 494,268 | \$ 1,453,683 | \$ (959,415) |
| Net Position, Beginning of Year | 21,725,350 | 20,271,667 | 1,453,683 |
| Net Position, End of Year | \$ 22,219,618 | \$ 21,725,350 | \$ 494,268 |

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2020, were \$10,126,026, an increase of \$378,137 from the prior year. The General Fund fund balance decreased by \$302,355, primarily due to the costs of operating and maintaining the District's facilities exceeding service, property tax and sales tax revenues. The Debt Service Fund fund balance increased by \$680,492, primarily due to the structure of the District's debt service requirements. The Special Revenue Fund is revenue neutral. Operating costs of \$528,042 were billed to the participants during the current fiscal year.

BUDGETARY HIGHLIGHTS

The Board of Directors approved unappropriated budgets for both the General Fund and Special Revenue Fund for the current fiscal year. General Fund actual revenues were \$294,625 more than budgeted revenues primarily due to higher than anticipated tap fees, authority fees, property tax revenues and sales tax revenues. Actual expenditures were \$4,357,919 less than budgeted expenditures primarily due to lower than anticipated capital outlay and maintenance/repair costs. The Special Revenue Fund budget reflects actual expenditures which were less than budgeted amounts by \$64,063.

CAPITAL ASSETS

Capital assets as of March 31, 2020, total \$11,825,151 (net of accumulated depreciation) and include land, buildings, and equipment as well as the water, wastewater, and drainage systems. Significant capital asset activity during the current fiscal year included the lift station no. 2 rehabilitation, wastewater treatment plant improvements, water plant SCADA implementation, and water plant no. 1 recoating.

| Capital Assets At Year-End, Net of Accumulated Depreciation | | | |
|---|---------------|---------------|----------------------------------|
| | 2020 | 2019 | Change Positive (Negative) |
| Capital Assets Not Being Depreciated: | | | |
| Land and Land Improvements | \$ 233,736 | \$ 233,736 | \$ |
| Construction in Progress | 650,368 | 108,421 | 541,947 |
| Capital Assets, Net of Accumulated Depreciation: | | | |
| Buildings and Equipment | 140,212 | 144,180 | (3,968) |
| Water System | 3,525,974 | 3,699,856 | (173,882) |
| Wastewater System | 6,459,100 | 6,761,701 | (302,601) |
| Drainage System | 815,761 | 845,266 | (29,505) |
| Total Net Capital Assets | \$ 11,825,151 | \$ 11,793,160 | \$ 31,991 |

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2020**

LONG-TERM DEBT ACTIVITY

As of March 31, 2020, the District had total bond debt payable of \$6,690,000. The changes in the debt position of the District during the current fiscal year are summarized as follows:

| | |
|-----------------------------------|---------------------|
| Bond Debt Payable, April 1, 2019 | \$ 7,025,000 |
| Less: Bond Principal Paid | <u>335,000</u> |
| Bond Debt Payable, March 31, 2020 | <u>\$ 6,690,000</u> |

The District has an underlying rating of "A1" from Moody's Rating Services ("Moody's"). The Series 2012 Bonds were sold without an insured rating. The District's Series 2015 Bonds were sold with an insured rating of "AA" by virtue of bond insurance issued by Municipal Assurance Corp. ("MAC"). All ratings are as of March 31, 2020, and reflect changes, if any, through that date.

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 Faulkey Gully Municipal Utility District, c/o Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, TX 77046.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2020

| | General Fund | Special Revenue Fund |
|--|----------------------|-------------------------|
| ASSETS | | |
| Cash | \$ 371,505 | \$ 184,490 |
| Investments | 9,267,331 | |
| Receivables: | | |
| Property Taxes | 35,097 | |
| Penalty and Interest on Delinquent Taxes | | |
| Service Accounts | 145,419 | |
| Accrued Interest | 37,687 | |
| Sales Taxes | 55,473 | |
| Due from Other Funds | 22,543 | 46,238 |
| Water Authority Capital Contributions | | |
| Chloramination Credit Receivable | | |
| Prepaid Costs | 16,415 | |
| Due from Participant | | 12,393 |
| Joint Facilities Operating Advance | 102,271 | |
| Land | | |
| Construction in Progress | | |
| Capital Assets (Net of Accumulated Depreciation) | | |
| TOTAL ASSETS | \$ 10,053,741 | \$ 243,121 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Charges on Refunded Bonds | \$ -0- | \$ -0- |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 10,053,741 | \$ 243,121 |

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

| Debt Service Fund | Total | Adjustments | Statement of Net Position |
|----------------------|----------------------|----------------------|------------------------------|
| \$ 730,826 | \$ 1,286,821 | \$ | \$ 1,286,821 |
| 36,239 | 9,303,570 | | 9,303,570 |
| 36,501 | 71,598 | | 71,598 |
| | | 13,701 | 13,701 |
| | 145,419 | | 145,419 |
| | 37,687 | | 37,687 |
| | 55,473 | | 55,473 |
| | 68,781 | (68,781) | |
| | | 6,156,066 | 6,156,066 |
| | | 600,232 | 600,232 |
| | 16,415 | | 16,415 |
| | 12,393 | | 12,393 |
| | 102,271 | (102,271) | |
| | | 233,736 | 233,736 |
| | | 650,368 | 650,368 |
| | | 10,941,047 | 10,941,047 |
| <u>\$ 803,566</u> | <u>\$ 11,100,428</u> | <u>\$ 18,424,098</u> | <u>\$ 29,524,526</u> |
| <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 178,603</u> | <u>\$ 178,603</u> |
| <u>\$ 803,566</u> | <u>\$ 11,100,428</u> | <u>\$ 18,602,701</u> | <u>\$ 29,703,129</u> |

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

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2020

| | General Fund | Special Revenue Fund |
|---|----------------------|-------------------------|
| LIABILITIES | | |
| Accounts Payable | \$ 366,239 | \$ 112,599 |
| Accrued Interest Payable | | |
| Due to Participants | | 1,685 |
| Due to Other Funds | 46,238 | 11,244 |
| Security Deposits | 224,551 | |
| Participant Operating Advances | | 117,593 |
| Long-Term Liabilities: | | |
| Bonds Payable, Due Within One Year | | |
| Bonds Payable, Due After One Year | | |
| TOTAL LIABILITIES | \$ 637,028 | \$ 243,121 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property Taxes | \$ 35,097 | \$ - 0 - |
| FUND BALANCES | | |
| Nonspendable: | | |
| Prepaid Costs | \$ 16,415 | \$ |
| Operating Advance | 102,271 | |
| Restricted for Debt Service | | |
| Committed for Construction | 5,139,941 | |
| Unassigned | 4,122,989 | |
| TOTAL FUND BALANCES | \$ 9,381,616 | \$ - 0 - |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 10,053,741 | \$ 243,121 |
| NET POSITION | | |
| Net Investment in Capital Assets | | |
| Restricted for Debt Service | | |
| Unrestricted | | |
| TOTAL NET POSITION | | |

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

| Debt Service Fund | Total | Adjustments | Statement of Net Position |
|----------------------|----------------------|------------------------|------------------------------|
| \$ 11,356 | \$ 490,194 | \$ | \$ 490,194 |
| | | 17,546 | 17,546 |
| | 1,685 | | 1,685 |
| 11,299 | 68,781 | (68,781) | |
| | 224,551 | | 224,551 |
| | 117,593 | (102,271) | 15,322 |
| | | 345,000 | 345,000 |
| | | 6,389,213 | 6,389,213 |
| <u>\$ 22,655</u> | <u>\$ 902,804</u> | <u>\$ 6,580,707</u> | <u>\$ 7,483,511</u> |
| <u>\$ 36,501</u> | <u>\$ 71,598</u> | <u>\$ (71,598)</u> | <u>\$ - 0 -</u> |
| \$ | \$ 16,415 | \$ (16,415) | \$ |
| | 102,271 | (102,271) | |
| 744,410 | 744,410 | (744,410) | |
| | 5,139,941 | (5,139,941) | |
| | 4,122,989 | (4,122,989) | |
| <u>\$ 744,410</u> | <u>\$ 10,126,026</u> | <u>\$ (10,126,026)</u> | <u>\$ - 0 -</u> |
| <u>\$ 803,566</u> | <u>\$ 11,100,428</u> | | |
| | | \$ 5,269,541 | \$ 5,269,541 |
| | | 777,066 | 777,066 |
| | | 16,173,011 | 16,173,011 |
| | | <u>\$ 22,219,618</u> | <u>\$ 22,219,618</u> |

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

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2020**

| | | |
|--|--|---------------|
| Total Fund Balances - Governmental Funds | | \$ 10,126,026 |
|--|--|---------------|

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

| | | |
|--|--|-----------|
| Long-term receivables are recorded in the Statement of Net Position. | | 6,756,298 |
|--|--|-----------|

| | | |
|--|--|------------|
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. | | 11,825,151 |
|--|--|------------|

| | | |
|--|--|---------|
| Deferred charges on refunding bonds are amortized over the life of the old debt or new debt, whichever is shorter. | | 178,603 |
|--|--|---------|

| | | |
|--|--|--------|
| Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2019 and prior tax levies became part of recognized revenue in the governmental activities of the District. | | 85,299 |
|--|--|--------|

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

| | | |
|--------------------------|--------------------|--------------------|
| Accrued Interest Payable | \$ (17,546) | |
| Bonds Payable | <u>(6,734,213)</u> | <u>(6,751,759)</u> |

| | | |
|--|--|----------------------|
| Total Net Position - Governmental Activities | | <u>\$ 22,219,618</u> |
|--|--|----------------------|

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

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**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2020**

| | General Fund | Special Revenue Fund |
|---|---------------------|-------------------------|
| REVENUES | | |
| Property Taxes | \$ 1,212,377 | \$ |
| Water Service | 573,690 | |
| Wastewater Service | 269,277 | 527,921 |
| Water Authority Fees | 1,648,508 | |
| Penalty and Interest | 27,880 | |
| Connection/Reconnection/Inspection Fees | 83,074 | |
| Water Authority Credits | 618,098 | |
| Sales Tax Revenues | 251,592 | |
| Investment and Miscellaneous Revenues | 183,023 | 121 |
| TOTAL REVENUES | \$ 4,867,519 | \$ 528,042 |
| EXPENDITURES/EXPENSES | | |
| Service Operations: | | |
| Salaries (including Benefits) | \$ 31,436 | \$ 14,211 |
| Professional Fees | 200,328 | 17,198 |
| Contracted Services | 306,698 | 64,502 |
| Purchased Water Service | 1,134,211 | 583 |
| Purchased Wastewater Service | 459,133 | |
| Utilities | 88,737 | 100,918 |
| Water Authority Pumpage Fees | 489,366 | |
| Repairs and Maintenance | 1,549,322 | 105,803 |
| Depreciation | | |
| Other | 209,096 | 224,827 |
| Capital Outlay | 561,547 | |
| Debt Service: | | |
| Bond Principal | | |
| Bond Interest | | |
| TOTAL EXPENDITURES/EXPENSES | \$ 5,029,874 | \$ 528,042 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES | \$ (162,355) | \$ -0- |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers In(Out) | \$ (140,000) | \$ -0- |
| NET CHANGE IN FUND BALANCES | \$ (302,355) | \$ -0- |
| CHANGE IN NET POSITION | | |
| FUND BALANCES/NET POSITION - APRIL 1, 2019 | 9,683,971 | |
| FUND BALANCES/NET POSITION - MARCH 31, 2020 | \$ 9,381,616 | \$ -0- |

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

| Debt Service Fund | Total | Adjustments | Statement of Activities |
|----------------------|----------------------|----------------------|----------------------------|
| \$ 1,151,330 | \$ 2,363,707 | \$ 4,835 | \$ 2,368,542 |
| | 573,690 | | 573,690 |
| | 797,198 | (459,133) | 338,065 |
| | 1,648,508 | | 1,648,508 |
| 14,908 | 42,788 | 2,926 | 45,714 |
| | 83,074 | | 83,074 |
| | 618,098 | (251,410) | 366,688 |
| | 251,592 | | 251,592 |
| 2,037 | 185,181 | | 185,181 |
| <u>\$ 1,168,275</u> | <u>\$ 6,563,836</u> | <u>\$ (702,782)</u> | <u>\$ 5,861,054</u> |
| \$ | \$ 45,647 | \$ | \$ 45,647 |
| 4,915 | 222,441 | | 222,441 |
| 58,358 | 429,558 | | 429,558 |
| | 1,134,794 | | 1,134,794 |
| | 459,133 | (459,133) | |
| | 189,655 | | 189,655 |
| | 489,366 | | 489,366 |
| | 1,655,125 | | 1,655,125 |
| | | 529,556 | 529,556 |
| 10,264 | 444,187 | | 444,187 |
| | 561,547 | (561,547) | |
| | | | |
| 335,000 | 335,000 | (335,000) | |
| 219,246 | 219,246 | 7,211 | 226,457 |
| <u>\$ 627,783</u> | <u>\$ 6,185,699</u> | <u>\$ (818,913)</u> | <u>\$ 5,366,786</u> |
| <u>\$ 540,492</u> | <u>\$ 378,137</u> | <u>\$ 116,131</u> | <u>\$ 494,268</u> |
| <u>\$ 140,000</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| \$ 680,492 | \$ 378,137 | \$ (378,137) | \$ |
| | | 494,268 | 494,268 |
| 63,918 | 9,747,889 | 11,977,461 | 21,725,350 |
| <u>\$ 744,410</u> | <u>\$ 10,126,026</u> | <u>\$ 12,093,592</u> | <u>\$ 22,219,618</u> |

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

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2020**

| | | |
|---|----|----------------|
| Net Change in Fund Balances - Governmental Funds | \$ | 378,137 |
| 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. | | 4,835 |
| Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed. | | 2,926 |
| Governmental funds report repayment of capital contributions as revenues in the period received. However, in the Statement of Net Position, repayments reduce long-term receivables. | | (251,410) |
| 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. | | (529,556) |
| 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. | | 561,547 |
| 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. | | 335,000 |
| 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. | | (7,211) |
| Change in Net Position - Governmental Activities | \$ | <u>494,268</u> |

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

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 1. CREATION OF DISTRICT

Faulkey Gully Municipal Utility District of Harris County, (the “District”) was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality, effective March 21, 1973. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate, and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on April 13, 1973, and the first bonds were sold on February 28, 1978.

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. The District participates in a joint venture operation of a wastewater treatment plant. The District exercises oversight responsibility over the plant and accounts for the activity of the plant in its Special Revenue Fund. See Note 9 for additional disclosure.

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”).

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

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

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 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, sales tax revenues, operating costs and general expenditures.

Special Revenue Fund - To account for financial activities of the joint wastewater treatment facilities.

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

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectible 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 collectible within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of March 31, 2020, the Debt Service Fund owed the General Fund \$11,299 for maintenance tax collections, the General Fund owed the Special Revenue Fund \$46,238 for the District's share of wastewater treatment plant operations, and the Special Revenue Fund owed the General Fund \$11,244 for construction advances related to the renovation of the wastewater treatment plant. During the current fiscal year, the General Fund recorded a transfer to the Debt Service Fund in the amount of \$140,000 for a debt service shortfall.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

Assets are capitalized, including infrastructure assets, if they have an original cost of \$10,000 or more, and a useful life of at least two years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

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

Budgeting

Annual unappropriated budgets are adopted for both the General Fund and Special Revenue Fund by the District’s Board of Directors. The budgets are prepared using the same method of accounting as for financial reporting. The original General Fund and Special Revenue Fund budgets for the current year were not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund and the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund present the original amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

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

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets 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 using are classified 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 committed \$5,139,941 of its General Fund fund balance for improvements to District infrastructure.

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 not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

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

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

| | <u>Series 2012 Refunding</u> | <u>Series 2015 Refunding</u> |
|---|----------------------------------|----------------------------------|
| Outstanding at March 31, 2020 | \$ 1,935,000 | \$ 4,755,000 |
| Interest Rates | 3.73% | 2.00% - 3.25% |
| Maturity Dates – Serially Beginning/Ending | March 1, 2021/2033 | March 1, 2021/2037 |
| Interest Payment Dates | September 1/ March 1 | September 1/ March 1 |
| Callable Dates | March 1, 2019* | March 1, 2021* |

* Or any date thereafter, in whole or in part at a price of par plus accrued interest on the date fixed for redemption. The Series 2012 term bonds maturing on March 1, 2033, are subject to mandatory redemption beginning on March 1, 2017, respectively. The Series 2015 term bonds maturing on March 1, 2024, March 1, 2027, March 1, 2030, March 1, 2032, March 1, 2035 and March 1, 2037 are subject to mandatory redemption beginning on March 1, 2022, March 1, 2025, March 1, 2028, March 1, 2031, March 1, 2033 and March 1, 2036, respectively.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2020:

| | April 1, 2019 | Additions | Retirements | March 31, 2020 |
|-----------------------|------------------|-----------|----------------------------|-------------------|
| Bonds Payable | \$ 7,025,000 | \$ | \$ 335,000 | \$ 6,690,000 |
| Unamortized Discounts | (52,090) | | (2,904) | (49,186) |
| Unamortized Premiums | 98,914 | | 5,515 | 93,399 |
| Bonds Payable, Net | \$ 7,071,824 | \$ -0- | \$ 337,611 | \$ 6,734,213 |
| | | | Amount Due Within One Year | \$ 345,000 |
| | | | Amount Due After One Year | 6,389,213 |
| | | | Bonds Payable, Net | \$ 6,734,213 |

As of March 31, 2020, the debt service requirements on the bonds outstanding were as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|--------------|--------------|--------------|
| 2021 | \$ 345,000 | \$ 210,557 | \$ 555,557 |
| 2022 | 350,000 | 201,580 | 551,580 |
| 2023 | 360,000 | 191,931 | 551,931 |
| 2024 | 380,000 | 181,980 | 561,980 |
| 2025 | 390,000 | 171,431 | 561,431 |
| 2026-2030 | 2,165,000 | 657,899 | 2,822,899 |
| 2031-2035 | 2,220,000 | 280,817 | 2,500,817 |
| 2036-2037 | 480,000 | 23,563 | 503,563 |
| | \$ 6,690,000 | \$ 1,919,758 | \$ 8,609,758 |

The District has authorized but unissued bonds in the amount of \$17,150,000. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

During the year ended March 31, 2020, the District levied its 2019 ad valorem debt service tax rate of \$0.181 per \$100 of assessed valuation, which resulted in a tax levy of \$1,161,514 on the adjusted taxable valuation of \$641,720,499. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 3. LONG-TERM DEBT (Continued)

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 RESOLUTION AND LEGAL REQUIREMENTS

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

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

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or 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 \$5,816,175 and the bank balance was \$6,032,970. The District was not exposed to custodial credit risk at year-end.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2020, as listed below:

| | Cash | Certificates of Deposit | Total |
|----------------------|--------------|----------------------------|--------------|
| GENERAL FUND | \$ 371,505 | \$ 4,529,354 | \$ 4,900,859 |
| SPECIAL REVENUE FUND | 184,490 | | 184,490 |
| DEBT SERVICE FUND | 730,826 | | 730,826 |
| TOTAL DEPOSITS | \$ 1,286,821 | \$ 4,529,354 | \$ 5,816,175 |

Investments

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

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

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

The District records its investments in certificates of deposit at acquisition cost.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of March 31, 2020, the District had the following investments and maturities:

| Fund and Investment Type | Fair Value | Maturities of Less Than 1 Year |
|-----------------------------|---------------------|--------------------------------------|
| <u>GENERAL FUND</u> | | |
| TexPool | \$ 4,737,977 | \$ 4,737,977 |
| Certificates of Deposit | 4,529,354 | 4,529,354 |
| <u>DEBT SERVICE FUND</u> | | |
| TexPool | 36,239 | 36,239 |
| TOTAL INVESTMENTS | \$ 9,303,570 | \$ 9,303,570 |

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2020, the District's investment in TexPool was rated AAAM by Standard and Poor's. The District manages credit risk by investing in certificates of deposit with balances below FDIC coverage or which have balances covered by pledged collateral or letters of credit.

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

Restrictions

All cash and investments of the Special Revenue Fund are restricted for the payment of joint wastewater treatment plant operations. 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.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2020 is as follows:

| | April 1, 2019 | Increases | Decreases | March 31, 2020 |
|--|----------------------|---------------------|------------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Improvements | \$ 233,736 | \$ | \$ | \$ 233,736 |
| Construction in Progress | 108,421 | 561,547 | 19,600 | 650,368 |
| Total Capital Assets Not Being Depreciated | <u>\$ 342,157</u> | <u>\$ 561,547</u> | <u>\$ 19,600</u> | <u>\$ 884,104</u> |
| Capital Assets Subject to Depreciation | | | | |
| Building and Equipment | \$ 182,470 | \$ | \$ | \$ 182,470 |
| Water System | 7,497,528 | 19,600 | | 7,517,128 |
| Wastewater System | 13,275,878 | | | 13,275,878 |
| Drainage System | 1,324,071 | | | 1,324,071 |
| Total Capital Assets Subject to Depreciation | <u>\$ 22,279,947</u> | <u>\$ 19,600</u> | <u>\$ - 0 -</u> | <u>\$ 22,299,547</u> |
| Accumulated Depreciation | | | | |
| Building and Equipment | \$ 38,290 | \$ 3,968 | \$ | \$ 42,258 |
| Water System | 3,797,672 | 193,482 | | 3,991,154 |
| Wastewater System | 6,514,177 | 302,601 | | 6,816,778 |
| Drainage System | 478,805 | 29,505 | | 508,310 |
| Total Accumulated Depreciation | <u>\$ 10,828,944</u> | <u>\$ 529,556</u> | <u>\$ - 0 -</u> | <u>\$ 11,358,500</u> |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | <u>\$ 11,451,003</u> | <u>\$ (509,956)</u> | <u>\$ - 0 -</u> | <u>\$ 10,941,047</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u>\$ 11,793,160</u> | <u>\$ 51,591</u> | <u>\$ 19,600</u> | <u>\$ 11,825,151</u> |

NOTE 7. MAINTENANCE TAX

On April 5, 1975, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.25 per \$100 of assessed valuation of taxable property within the District. On May 3, 2003, the voters of the District approved an increase in the maximum maintenance tax not to exceed \$0.50 per \$100 of assessed valuation of taxable property within the District. During the year ended March 31, 2020, the District levied its 2019 ad valorem maintenance tax rate of \$0.191 per \$100 of assessed valuation, which resulted in a tax levy of \$1,225,686 on the adjusted taxable valuation of \$641,720,499. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 8. 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. The District carries commercial insurance to provide property, general liability, automobile, boiler and machinery, pollution, directors and officers liability and workers compensation coverage. There has been no significant reduction in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 9. SEWAGE TREATMENT OPERATIONS AND MAINTENANCE AGREEMENTS

On April 11, 1978, the District entered into an agreement with Malcomson Road Utility District (“Malcomson Road”) for assignment of 150,000 gallons per day capacity (gpd) in the District’s then existing 400,000 gpd sewage treatment plant and for the sharing of construction and acquisition costs of the sewage treatment plant and related facilities. In addition, the agreement calls for Malcomson Road to share in the cost of operating the sewage treatment plant on a basis of plant capacity.

On August 30, 1984, the District entered into an agreement with two Developers within the District to expand the existing sewage treatment plant by 800,000 gpd capacity. The District agreed to fund 520,000 gpd of the constructed capacity, and the Developers the remaining 280,000 gpd. Subsequent to entering into the agreement, and following meetings with representatives of the City of Houston, an additional 100,000 gpd was included in the construction in anticipation of the original plant being downgraded to 300,000 gpd due to changes in the loading criteria of the plant.

In 1989, the District sold bonds to purchase one Developer’s capacity; however, the Commission required that funds be escrowed pending the District showing a need to own the capacity. During a prior fiscal year, the Commission approved the release of \$196,879 of escrowed funds for the District to purchase the facilities, subject to the District and the Developers amending the agreement to reallocate the plant expansion on the basis of 900,000 gpd.

This action was accomplished through an agreement titled “Second Addendum to Agreement for Expansion of Sewage Treatment Facilities.” On the basis of this agreement, constructed capacity of the expansion was reallocated to 585,000 gpd funded by the District and 315,000 gpd funded by the Developers; and the District was authorized to purchase 103,600 gpd of one developer’s capacity from escrowed funds. During a prior fiscal year, Malcomson Road funded \$49,684 to the District for their share of the upgrade capacity. The District has subsequently purchased all capacity from the respective Developers excluding that portion of the upgrade purchased by Malcomson Road.

**FAULKNEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 9. SEWAGE TREATMENT OPERATIONS AND MAINTENANCE AGREEMENTS (Continued)

On September 19, 2002, the District and Malcomson Road entered into an agreement for expansion of the sewage treatment plant. This agreement calls for the District to administer the contracts and payment of invoices. The cost of the completed facility has been recorded as a part of the District’s wastewater system assets. The participants in the operations of the sewage treatment plant are:

| | Gallons Per Day Capacity | Operations Cost Allocation |
|--|-----------------------------|-------------------------------|
| Faulkey Gully Municipal Utility District | 1,234,974 | 86.97% |
| Malcomson Road Utility District | 185,026 | 13.03% |
| | 1,420,000 | 100.00% |

The operation of the sewage treatment plant facility is recorded in the District’s financial statements under the heading “Special Revenue Fund.” Separate financial statements of the joint venture are not issued. Malcomson Road and the District have advanced funds to assist with the month-to-month sewer plant operations with the districts providing \$15,322 and \$102,271, respectively, for a total of \$117,593.

NOTE 10. EMERGENCY WATER SUPPLY AGREEMENTS

On August 10, 1982, and as amended on January 12, 1998, the District executed a contract with Harris County Municipal Utility District No. 18 (“MUD 18”) to provide emergency water supply services. Under the terms of the contract, the District shall bear the cost of the interconnect. The charge for service to either district shall be 1.25 times the rate at which water is supplied by MUD 18 to single family residential customers within its boundaries. The term of the contract is 40 years. On December 19, 2002, the District approved an amendment to the agreement to pass through the fees assessed by the North Harris County Regional Water Authority.

On June 4, 1998, the District executed an Emergency Water Supply Contract with Pitcairn Water Supply Corporation (the “Corporation”). In accordance with the agreement, the Corporation agreed to acquire and construct all facilities necessary to connect to the District’s water supply system. During an emergency, the District shall open the valve in the line connecting the two systems and supply water to the Corporation, but only after the Corporation provides notice of the emergency to the District’s operator. In order for the Corporation to draw water in other than an emergency, the Corporation must obtain prior written consent of the District. The District shall not be obligated to supply water in simultaneous emergencies.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 10. EMERGENCY WATER SUPPLY AGREEMENTS (Continued)

The Corporation will be billed annually for water at the rate of \$2.00 per 1,000 gallons on the first 1 million gallons of water and \$2.50 per 1,000 gallons over 1 million gallons of water received. In addition, the Corporation agreed to fund all reasonable costs incurred by the District in implementing the interconnect during an emergency. The agreement is in force and effect from the date of its execution until January 1, 1999. The contract shall thereafter be automatically renewed each year but shall be subject to termination by either party by providing one year's written notice at any time.

NOTE 11. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the North Harris County Regional Water Authority (the "Authority"). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the "Act"), as passed by the 75th Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority 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, to convert a percentage of its water use to surface water over a period of time.

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, unless exempted. The pumpage fee charged at year-end was \$3.85 per 1,000 gallons of water pumped from each well. The Authority also charges a surface water fee which was \$4.30 per 1,000 gallons at year-end. During the current fiscal year, the District incurred costs of \$489,366 for pumpage fees and \$1,134,211 for purchased surface water.

Capital Contributions Receivable

The District has entered into capital contribution contracts with the Authority. The District receives capital contribution credits to be applied to the quarterly pumpage fees which the Authority assesses, applied to any water purchased by the District from the Authority, or to be paid to the District in cash. The Authority calculates the credits by amortizing the Capital Contribution over the life of the Authority's bonds.

On July 7, 2003, the District entered into a Capital Contribution Contract with the Authority and on October 2, 2003, approved the First Amendment to the Capital Contribution Contract. The District paid \$2,546,251 to the Authority for the District's share of the construction of the 2010 Surface Water Distribution and Transmission System. During the current fiscal year, the District received credits of \$185,557 including a return of principal of \$89,638. The 2003 capital contribution balance is \$1,806,837.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 11. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
(Continued)

Capital Contributions Receivable (Continued)

On July 21, 2005, the District sold bonds for the District's \$1,787,314 share of the surface water conversion project. During the current fiscal year, the District received credits of \$121,892 including a return of principal of \$55,521. The 2005 capital contribution balance is \$1,324,832.

On July 10, 2008, the District entered into a capital contribution contract with the Authority and subsequently made the payment of \$3,530,656 to the Authority. The District received credits of \$260,019 including a return of principal of \$92,468. The 2008 capital contribution balance is \$3,024,397.

Future repayments of capital contributions are as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|---------------------|---------------------|---------------------|
| 2021 | \$ 249,798 | \$ 317,670 | \$ 567,468 |
| 2022 | 262,605 | 304,863 | 567,468 |
| 2023 | 276,057 | 291,411 | 567,468 |
| 2024 | 290,199 | 277,269 | 567,468 |
| 2025 | 305,082 | 262,386 | 567,468 |
| 2026-2030 | 1,776,621 | 1,060,719 | 2,837,340 |
| 2031-2035 | 2,047,174 | 558,221 | 2,605,395 |
| 2036-2039 | 948,530 | 117,952 | 1,066,482 |
| | <u>\$ 6,156,066</u> | <u>\$ 3,190,491</u> | <u>\$ 9,346,557</u> |

Chloramine Conversion Reimbursement

The Authority required the District to convert its water systems to chloramine disinfection for as long as it is connected to the Authority's system. The District has completed its chloramine conversion system. The District's reimbursable cost of this system was \$696,836. The Authority calculated the reimbursement at 6% interest over a 30-year period. The District began receiving chloramine conversion credits on the August 2011 Authority billing. Total credits earned in the current fiscal year were \$50,624. Of this amount, \$13,783 was a return of principal with the balance being applicable to interest. The following is a schedule of the remaining chloramine conversion credits to be received under the terms of the agreement.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020**

**NOTE 11. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
(Continued)**

Chloramine Conversion Reimbursement (Continued)

| Fiscal Year | Principal | Interest | Total |
|-------------|-------------------|-------------------|---------------------|
| 2021 | \$ 14,610 | \$ 36,014 | \$ 50,624 |
| 2022 | 15,487 | 35,137 | 50,624 |
| 2023 | 16,416 | 34,208 | 50,624 |
| 2024 | 17,401 | 33,223 | 50,624 |
| 2025 | 18,445 | 32,179 | 50,624 |
| 2026-2030 | 110,217 | 142,905 | 253,122 |
| 2031-2035 | 147,495 | 105,627 | 253,122 |
| 2036-2040 | 197,382 | 55,740 | 253,122 |
| 2041-2042 | 62,779 | 4,722 | 67,501 |
| | <u>\$ 600,232</u> | <u>\$ 479,755</u> | <u>\$ 1,079,987</u> |

NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT

Effective July 1, 2004, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas (the “City”). The agreement was amended effective December 13, 2010. The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City shall annex a tract of land defined as the “Subject Tract” for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Subject Tract within the boundaries of the District. The District will continue to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District. The City imposes a Sales and Use Tax within the boundaries of the Subject Tract at the rate of one percent (or the rate specified under the future amendments to Chapter 321 of the Tax Code). The City pays the District one-half of all Sales and Use Tax revenues generated within the boundaries of the Subject Tract. The City delivers to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Comptroller’s office. Sales tax revenues in the current fiscal year totaled \$251,592. The City agrees that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date of the original agreement.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 13. SUBSEQUENT EVENT – REFUNDING BOND SALE

On June 23, 2020, subsequent to year-end, the District closed on the sale of its \$2,020,000 Series 2020 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds. Proceeds of the bonds were used to refund \$1,935,000 of the Series 2012 Refunding Bonds with interest rates of 3.70%, maturity dates of 2021-2033, and a redemption date of June 23, 2020. The refunding resulted in gross debt savings of \$129,868 and net present value savings of \$109,469.

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.

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FAULKEY GULLY MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2020

**FAULKNEY GULLY MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2020**

| | Original and Final Budget | Actual | Variance Positive (Negative) |
|--|------------------------------|---------------------|------------------------------------|
| REVENUES | | | |
| Property Taxes | \$ 1,122,840 | \$ 1,212,377 | \$ 89,537 |
| Water Service | 576,000 | 573,690 | (2,310) |
| Wastewater Service | 273,000 | 269,277 | (3,723) |
| Water Authority Fees | 1,560,000 | 1,648,508 | 88,508 |
| Penalty and Interest | 10,500 | 27,880 | 17,380 |
| Connection/Reconnection/Inspection Fees | 20,100 | 83,074 | 62,974 |
| Water Authority Credits | 617,874 | 618,098 | 224 |
| Sales Tax Revenues | 210,000 | 251,592 | 41,592 |
| Investment and Miscellaneous Revenues | 182,580 | 183,023 | 443 |
| TOTAL REVENUES | <u>\$ 4,572,894</u> | <u>\$ 4,867,519</u> | <u>\$ 294,625</u> |
| EXPENDITURES | | | |
| Service Operations: | | | |
| Salaries (including Benefits) | \$ 30,780 | \$ 31,436 | \$ (656) |
| Professional Fees | 159,200 | 200,328 | (41,128) |
| Contracted Services | 251,368 | 306,698 | (55,330) |
| Purchased Water Service/Pumpage Fees | 1,548,000 | 1,623,577 | (75,577) |
| Purchased Wastewater Service | 514,950 | 459,133 | 55,817 |
| Utilities | 99,000 | 88,737 | 10,263 |
| Repairs and Maintenance/Capital Outlay | 6,597,800 | 2,110,869 | 4,486,931 |
| Other | 186,695 | 209,096 | (22,401) |
| TOTAL EXPENDITURES | <u>\$ 9,387,793</u> | <u>\$ 5,029,874</u> | <u>\$ 4,357,919</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ (4,814,899)</u> | <u>\$ (162,355)</u> | <u>\$ 4,652,544</u> |
| OTHER FINANCING SOURCES(USES) | | | |
| Transfers Out | <u>\$ -0-</u> | <u>\$ (140,000)</u> | <u>\$ (140,000)</u> |
| NET CHANGE IN FUND BALANCE | \$ (4,814,899) | \$ (302,355) | \$ 4,512,544 |
| FUND BALANCE - APRIL 1, 2019 | <u>9,683,971</u> | <u>9,683,971</u> | |
| FUND BALANCE - MARCH 31, 2020 | <u>\$ 4,869,072</u> | <u>\$ 9,381,616</u> | <u>\$ 4,512,544</u> |

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – SPECIAL REVENUE FUND
FOR THE YEAR ENDED MARCH 31, 2020**

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--------------------------------------|--------------------------------------|-------------------|---|
| REVENUES | | | |
| Wastewater Service | \$ 592,105 | \$ 528,042 | \$ (64,063) |
| EXPENDITURES | | | |
| Service Operations: | | | |
| Salaries (including Benefits) | \$ 14,280 | \$ 14,211 | \$ 69 |
| Professional Fees | 58,750 | 17,198 | 41,552 |
| Contracted Services | 56,880 | 64,502 | (7,622) |
| Purchased Water Service | 600 | 583 | 17 |
| Utilities | 112,330 | 100,918 | 11,412 |
| Repairs and Maintenance | 120,000 | 105,803 | 14,197 |
| Lab Fees | 51,000 | 30,849 | 20,151 |
| Permits | 10,180 | 9,951 | 229 |
| Sludge Hauling | 60,000 | 77,536 | (17,536) |
| Chemicals | 96,000 | 93,328 | 2,672 |
| Insurance | 12,085 | 13,072 | (987) |
| Other | _____ | 91 | (91) |
| TOTAL EXPENDITURES | <u>\$ 592,105</u> | <u>\$ 528,042</u> | <u>\$ 64,063</u> |
| NET CHANGE IN FUND BALANCE | \$ -0- | \$ -0- | \$ -0- |
| FUND BALANCE - APRIL 1, 2019 | _____ | _____ | _____ |
| FUND BALANCE - MARCH 31, 2019 | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |

See accompanying independent auditor's report.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MARCH 31, 2020

**FAULKY GULLY MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2020**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved November 21, 2019.

| | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate per 1,000 Gallons over Minimum Use</u> | <u>Usage Levels</u> |
|-------------|-----------------------|----------------------|----------------------|--|---------------------|
| WATER: | \$ 8.00 | 5,000 | N | \$ 0.60 | 5,001 to 20,000 |
| | | | | 1.50 | 20,001 to 30,000 |
| | | | | 2.50 | 30,001 to 40,000 |
| | | | | 3.50 | 40,001 and up |
| WASTEWATER: | \$ 8.00 | 40,000 | Y | | |
| | 10.00 | 40,001 to 80,000 | Y | | |
| | 12.00 | 80,001 and up | Y | | |

SURCHARGE:

Water Authority Fees \$4.30 per 1000 gallons used

District employs winter averaging for wastewater usage?

_____ X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$11.00 Wastewater: \$8.00 Surcharge: \$43.00 Total: \$62.00

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 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>2,345</u> | <u>2,339</u> | x 1.0 | <u>2,339</u> |
| 1" | <u>246</u> | <u>245</u> | x 2.5 | <u>613</u> |
| 1½" | <u>27</u> | <u>27</u> | x 5.0 | <u>135</u> |
| 2" | <u>98</u> | <u>98</u> | x 8.0 | <u>784</u> |
| 3" | | | x 15.0 | |
| 4" | | | x 25.0 | |
| 6" | <u>1</u> | <u>1</u> | x 50.0 | <u>50</u> |
| 8" | | | x 80.0 | |
| 10" | | | x 115.0 | |
| Total Water Connections | <u><u>2,717</u></u> | <u><u>2,710</u></u> | | <u><u>3,921</u></u> |
| Total Wastewater Connections | <u><u>2,654</u></u> | <u><u>2,647</u></u> | x 1.0 | <u><u>2,647</u></u> |

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

| | | |
|------------------------------|-------------|---|
| Gallons pumped into system: | 136,931,000 | Water Accountability Ratio: 96.4% (Gallons billed and used for maintenance/Gallons pumped and purchased) |
| Gallons billed to customers: | 388,412,000 | |
| Gallons purchased: | 267,409,000 | From: North Harris County Regional Water Authority |
| Leaks and flushing: | 1,554,000 | |

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 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.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2020**

| | |
|---|---------------------|
| PERSONNEL EXPENDITURES (Including Benefits) | \$ 31,436 |
| PROFESSIONAL FEES: | |
| Auditing | \$ 16,000 |
| Engineering | 85,773 |
| Legal | 98,555 |
| TOTAL PROFESSIONAL FEES | <u>\$ 200,328</u> |
| PURCHASED SERVICES FOR RESALE: | |
| Purchased Water Service | \$ 1,134,211 |
| Purchased Wastewater Service | 459,133 |
| TOTAL PURCHASED SERVICES FOR RESALE | <u>\$ 1,593,344</u> |
| CONTRACTED SERVICES: | |
| Bookkeeping | \$ 16,440 |
| Operations and Billing | 220,811 |
| Security | 69,447 |
| TOTAL CONTRACTED SERVICES | <u>\$ 306,698</u> |
| UTILITIES: | |
| Electricity | \$ 82,656 |
| Telephone | 6,081 |
| TOTAL UTILITIES | <u>\$ 88,737</u> |
| REPAIRS AND MAINTENANCE | <u>\$ 1,549,322</u> |
| ADMINISTRATIVE EXPENDITURES: | |
| Director Fees, Including Payroll Taxes | \$ 36,445 |
| Election Costs | 18,197 |
| Insurance | 19,634 |
| Office Supplies and Postage | 2,847 |
| Travel and Meetings | 15,359 |
| Other | 19,178 |
| TOTAL ADMINISTRATIVE EXPENDITURES | <u>\$ 111,660</u> |
| CAPITAL OUTLAY | <u>\$ 561,547</u> |
| TAP CONNECTIONS | <u>\$ 6,280</u> |
| OTHER EXPENDITURES: | |
| Chemicals | \$ 30,285 |
| Laboratory Fees | 24,488 |
| Permit Fees | 6,573 |
| Inspection and Reconnection Fees | 25,618 |
| Water Authority Pumpage Fees | 489,366 |
| Regulatory Assessment | 4,192 |
| TOTAL OTHER EXPENDITURES | <u>\$ 580,522</u> |
| TOTAL EXPENDITURES | <u>\$ 5,029,874</u> |

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
INVESTMENTS
MARCH 31, 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> | | | | | |
| TexPool | XXXX0002 | Varies | Daily | \$ 4,737,977 | \$ |
| Certificate of Deposit | XXXX8796 | 2.50% | 07/18/20 | 800,000 | 14,192 |
| Certificate of Deposit | XXXX5334 | 2.30% | 04/22/20 | 245,000 | 5,295 |
| Certificate of Deposit | XXXX1435 | 1.45% | 05/21/20 | 240,000 | 1,249 |
| Certificate of Deposit | XXXX1594 | 2.60% | 06/21/20 | 245,000 | 4,904 |
| Certificate of Deposit | XXXX0353 | 1.47% | 07/21/20 | 2,000,000 | 5,638 |
| Certificate of Deposit | XXXX0107 | 1.45% | 07/21/20 | 245,000 | 710 |
| Certificate of Deposit | XXXX0857 | 1.85% | 04/20/20 | 254,354 | 2,127 |
| Certificate of Deposit | XXXX6807 | 1.58% | 04/17/20 | <u>500,000</u> | <u>3,572</u> |
| TOTAL GENERAL FUND | | | | <u>\$ 9,267,331</u> | <u>\$ 37,687</u> |
| <u>DEBT SERVICE FUND</u> | | | | | |
| TexPool | XXXX0001 | Varies | Daily | <u>\$ 36,239</u> | <u>\$ -0-</u> |
| TOTAL - ALL FUNDS | | | | <u>\$ 9,303,570</u> | <u>\$ 37,687</u> |

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2020**

| | Maintenance Taxes | | Debt Service Taxes | |
|-----------------------------|-------------------|------------------|--------------------|-----------------------------------|
| TAXES RECEIVABLE - | | | | |
| APRIL 1, 2019 | \$ | 30,594 | | \$ 36,169 |
| Adjustments to Beginning | | | | |
| Balance | | <u>(8,806)</u> | \$ 21,788 | <u>(9,852)</u> \$ 26,317 |
| Original 2019 Tax Levy | \$ | 1,130,837 | | \$ 1,071,631 |
| Adjustment to 2019 Tax Levy | | <u>94,849</u> | <u>1,225,686</u> | <u>89,883</u> <u>1,161,514</u> |
| TOTAL TO BE | | | | |
| ACCOUNTED FOR | | \$ 1,247,474 | | \$ 1,187,831 |
| TAX COLLECTIONS: | | | | |
| Prior Years | \$ | 16,635 | | \$ 18,192 |
| Current Year | | <u>1,195,742</u> | <u>1,212,377</u> | <u>1,133,138</u> <u>1,151,330</u> |
| TAXES RECEIVABLE - | | | | |
| MARCH 31, 2020 | | <u>\$ 35,097</u> | | <u>\$ 36,501</u> |
| TAXES RECEIVABLE BY | | | | |
| YEAR: | | | | |
| 2019 | | \$ 29,944 | | \$ 28,376 |
| 2018 | | 2,119 | | 2,330 |
| 2017 | | 880 | | 1,087 |
| 2016 | | 580 | | 716 |
| 2015 | | 572 | | 692 |
| 2014 | | 266 | | 632 |
| 2013 | | 245 | | 683 |
| 2012 and prior | | <u>491</u> | | <u>1,985</u> |
| TOTAL | | <u>\$ 35,097</u> | | <u>\$ 36,501</u> |

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2020**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| PROPERTY VALUATIONS: | | | | |
| Land | \$ 150,511,087 | \$ 142,756,684 | \$ 139,742,565 | \$ 134,571,455 |
| Improvements | 610,223,483 | 596,029,411 | 593,750,110 | 589,056,539 |
| Personal Property | 23,278,206 | 18,512,621 | 18,085,941 | 19,097,547 |
| Exemptions | <u>(142,292,277)</u> | <u>(137,120,172)</u> | <u>(136,747,366)</u> | <u>(143,365,552)</u> |
| TOTAL PROPERTY VALUATIONS | <u>\$ 641,720,499</u> | <u>\$ 620,178,544</u> | <u>\$ 614,831,250</u> | <u>\$ 599,359,989</u> |
| TAX RATES PER \$100 VALUATION: | | | | |
| Debt Service | \$ 0.181 | \$ 0.199 | \$ 0.21 | \$ 0.21 |
| Maintenance | <u>0.191</u> | <u>0.181</u> | <u>0.17</u> | <u>0.17</u> |
| TOTAL TAX RATES PER \$100 VALUATION | <u>\$ 0.372</u> | <u>\$ 0.380</u> | <u>\$ 0.38</u> | <u>\$ 0.38</u> |
| ADJUSTED TAX LEVY* | <u>\$ 2,387,200</u> | <u>\$ 2,356,678</u> | <u>\$ 2,336,359</u> | <u>\$ 2,277,568</u> |
| PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED | <u>97.56 %</u> | <u>99.81 %</u> | <u>99.92 %</u> | <u>99.94 %</u> |

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

Maintenance Tax – Maximum tax rate of \$0.50 per \$100 of assessed valuation approved by voters on May 3, 2003.

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2020**

REFUNDING SERIES - 2012

| Due During Fiscal Years Ending March 31 | Principal Due March 1 | Interest Due September 1/ March 1 | Total |
|---|-----------------------------|---|---------------------|
| 2021 | \$ 120,000 | \$ 72,176 | \$ 192,176 |
| 2022 | 120,000 | 67,699 | 187,699 |
| 2023 | 125,000 | 63,224 | 188,224 |
| 2024 | 135,000 | 58,561 | 193,561 |
| 2025 | 135,000 | 53,525 | 188,525 |
| 2026 | 140,000 | 48,490 | 188,490 |
| 2027 | 150,000 | 43,268 | 193,268 |
| 2028 | 150,000 | 37,673 | 187,673 |
| 2029 | 160,000 | 32,078 | 192,078 |
| 2030 | 165,000 | 26,110 | 191,110 |
| 2031 | 170,000 | 19,956 | 189,956 |
| 2032 | 180,000 | 13,614 | 193,614 |
| 2033 | 185,000 | 6,901 | 191,901 |
| 2034 | | | |
| 2035 | | | |
| 2036 | | | |
| 2037 | | | |
| | <u>\$ 1,935,000</u> | <u>\$ 543,275</u> | <u>\$ 2,478,275</u> |

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2020**

REFUNDING SERIES - 2015

| Due During Fiscal Years Ending March 31 | Principal Due March 1 | Interest Due September 1/ March 1 | Total |
|---|-----------------------------|---|---------------------|
| 2021 | \$ 225,000 | \$ 138,381 | \$ 363,381 |
| 2022 | 230,000 | 133,881 | 363,881 |
| 2023 | 235,000 | 128,707 | 363,707 |
| 2024 | 245,000 | 123,419 | 368,419 |
| 2025 | 255,000 | 117,906 | 372,906 |
| 2026 | 260,000 | 110,256 | 370,256 |
| 2027 | 270,000 | 102,456 | 372,456 |
| 2028 | 280,000 | 94,356 | 374,356 |
| 2029 | 290,000 | 85,956 | 375,956 |
| 2030 | 300,000 | 77,256 | 377,256 |
| 2031 | 310,000 | 68,256 | 378,256 |
| 2032 | 320,000 | 58,569 | 378,569 |
| 2033 | 340,000 | 48,569 | 388,569 |
| 2034 | 350,000 | 37,945 | 387,945 |
| 2035 | 365,000 | 27,007 | 392,007 |
| 2036 | 235,000 | 15,600 | 250,600 |
| 2037 | 245,000 | 7,963 | 252,963 |
| | <u>\$ 4,755,000</u> | <u>\$ 1,376,483</u> | <u>\$ 6,131,483</u> |

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2020**

ANNUAL REQUIREMENTS
FOR ALL SERIES

| Due During Fiscal Years Ending March 31 | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
|---|------------------------|-----------------------|--|
| 2021 | \$ 345,000 | \$ 210,557 | \$ 555,557 |
| 2022 | 350,000 | 201,580 | 551,580 |
| 2023 | 360,000 | 191,931 | 551,931 |
| 2024 | 380,000 | 181,980 | 561,980 |
| 2025 | 390,000 | 171,431 | 561,431 |
| 2026 | 400,000 | 158,746 | 558,746 |
| 2027 | 420,000 | 145,724 | 565,724 |
| 2028 | 430,000 | 132,029 | 562,029 |
| 2029 | 450,000 | 118,034 | 568,034 |
| 2030 | 465,000 | 103,366 | 568,366 |
| 2031 | 480,000 | 88,212 | 568,212 |
| 2032 | 500,000 | 72,183 | 572,183 |
| 2033 | 525,000 | 55,470 | 580,470 |
| 2034 | 350,000 | 37,945 | 387,945 |
| 2035 | 365,000 | 27,007 | 392,007 |
| 2036 | 235,000 | 15,600 | 250,600 |
| 2037 | 245,000 | 7,963 | 252,963 |
| | <u>\$ 6,690,000</u> | <u>\$ 1,919,758</u> | <u>\$ 8,609,758</u> |

See accompanying independent auditor's report.

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**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2020**

| Description | Original Bonds Issued | Bonds Outstanding April 1, 2019 |
|--|--------------------------|--|
| Faulkey Gully Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2012 | \$ 3,430,000 | \$ 2,050,000 |
| Faulkey Gully Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2015 | <u>7,665,000</u> | <u>4,975,000</u> |
| TOTAL | <u>\$ 11,095,000</u> | <u>\$ 7,025,000</u> |
| Bond Authority: | | <u>Combination Tax and Refunding Bonds</u> |
| Amount Authorized by Voters | | \$ 49,440,000 |
| Amount Issued | | <u>32,290,000</u> |
| Remaining to be Issued | | <u>\$ 17,150,000</u> |
| Debt Service Fund cash and investment balances as of March 31, 2020: | | <u>\$ 767,065</u> |
| Average annual debt service payment (principal and interest) for remaining term of all debt: | | <u>\$ 506,456</u> |

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

See accompanying independent auditor's report.

| <u>Current Year Transactions</u> | | | | |
|----------------------------------|--------------------|-------------------|---|--|
| <u>Bonds Sold</u> | <u>Retirements</u> | | <u>Bonds Outstanding March 31, 2020</u> | <u>Paying Agent</u> |
| | <u>Principal</u> | <u>Interest</u> | | |
| \$ | \$ 115,000 | \$ 76,465 | \$ 1,935,000 | Branch Banking and Trust Company Charlotte, N.C. |
| | 220,000 | 142,781 | 4,755,000 | Amegy Bank, N.A. |
| <u>\$ - 0 -</u> | <u>\$ 335,000</u> | <u>\$ 219,246</u> | <u>\$ 6,690,000</u> | |

See accompanying independent auditor's report.

**FAULKNEY GULLY MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2020 | 2019 | 2018 |
| REVENUES | | | |
| Property Taxes | \$ 1,212,377 | \$ 1,105,989 | \$ 1,041,728 |
| Water Service | 573,690 | 540,673 | 598,785 |
| Wastewater Service | 269,277 | 269,186 | 269,589 |
| Water Authority Fees | 1,648,508 | 1,333,193 | 1,341,474 |
| Penalty and Interest | 27,880 | 10,407 | 11,518 |
| Connection/Inspection/Reconnection Fees | 83,074 | 86,834 | 75,215 |
| Water Authority Credits | 618,098 | 618,098 | 618,098 |
| Sales Tax Revenues | 251,592 | 215,320 | 221,631 |
| Sale of Land | | | |
| Investment and Miscellaneous Revenues | <u>183,023</u> | <u>163,855</u> | <u>98,937</u> |
| TOTAL REVENUES | <u>\$ 4,867,519</u> | <u>\$ 4,343,555</u> | <u>\$ 4,276,975</u> |
| EXPENDITURES | | | |
| Salaries (including Benefits) | \$ 31,436 | \$ 30,803 | \$ 34,150 |
| Professional Fees | 200,328 | 221,864 | 336,814 |
| Contracted Services | 306,698 | 276,103 | 253,303 |
| Purchased Water Service | 1,134,211 | 941,067 | 937,323 |
| Purchased Wastewater Service | 459,133 | 484,723 | 460,273 |
| Utilities | 88,737 | 90,799 | 100,639 |
| Repairs and Maintenance | 1,549,322 | 386,511 | 417,127 |
| Water Authority Pumpage Fees | 489,366 | 415,303 | 442,207 |
| Other | 209,096 | 171,680 | 198,555 |
| Capital Outlay | <u>561,547</u> | <u>52,317</u> | <u>582,110</u> |
| TOTAL EXPENDITURES | <u>\$ 5,029,874</u> | <u>\$ 3,071,170</u> | <u>\$ 3,762,501</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ (162,355)</u> | <u>\$ 1,272,385</u> | <u>\$ 514,474</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In(Out) | <u>\$ (140,000)</u> | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> |
| NET CHANGE IN FUND BALANCE | \$ (302,355) | \$ 1,272,385 | \$ 514,474 |
| BEGINNING FUND BALANCE | <u>9,683,971</u> | <u>8,411,586</u> | <u>7,897,112</u> |
| ENDING FUND BALANCE | <u>\$ 9,381,616</u> | <u>\$ 9,683,971</u> | <u>\$ 8,411,586</u> |

See accompanying independent auditor's report.

| | | Percentage of Total Revenues | | | | |
|---------------------|---------------------|------------------------------|----------------|----------------|----------------|----------------|
| 2017 | 2016 | 2020 | 2019 | 2018 | 2017 | 2016 |
| \$ 1,008,390 | \$ 1,078,446 | 24.8 % | 25.5 % | 24.2 % | 25.7 % | 26.6 % |
| 567,227 | 631,543 | 11.8 | 12.4 | 14.0 | 14.6 | 15.5 |
| 268,070 | 272,708 | 5.5 | 6.2 | 6.3 | 6.9 | 6.7 |
| 1,101,250 | 1,005,463 | 33.9 | 30.7 | 31.4 | 28.3 | 24.8 |
| 10,807 | 13,249 | 0.6 | 0.2 | 0.3 | 0.3 | 0.3 |
| 36,470 | 19,030 | 1.7 | 2.0 | 1.8 | 0.9 | 0.5 |
| 618,098 | 618,098 | 12.7 | 14.2 | 14.5 | 15.9 | 15.2 |
| 232,033 | 227,978 | 5.2 | 5.0 | 5.2 | 6.0 | 5.6 |
| | 147,849 | | | | | 3.6 |
| 54,904 | 48,106 | 3.8 | 3.8 | 2.3 | 1.4 | 1.2 |
| <u>\$ 3,897,249</u> | <u>\$ 4,062,470</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 24,733 | \$ 25,920 | 0.6 % | 0.7 % | 0.8 % | 0.6 % | 0.6 % |
| 57,909 | 73,917 | 4.1 | 5.1 | 7.9 | 1.5 | 1.8 |
| 239,161 | 237,798 | 6.3 | 6.4 | 5.9 | 6.1 | 5.9 |
| 836,036 | 674,073 | 23.3 | 21.7 | 21.9 | 21.5 | 16.6 |
| 457,931 | 448,128 | 9.4 | 11.2 | 10.8 | 11.8 | 11.0 |
| 102,743 | 122,469 | 1.8 | 2.1 | 2.4 | 2.6 | 3.0 |
| 268,119 | 141,519 | 31.8 | 8.9 | 9.8 | 6.9 | 3.5 |
| 326,208 | 307,416 | 10.1 | 9.6 | 10.3 | 8.4 | 7.6 |
| 157,890 | 159,017 | 4.3 | 4.0 | 4.6 | 4.1 | 3.9 |
| 434,071 | 266,733 | 11.5 | 1.2 | 13.6 | 11.1 | 6.6 |
| <u>\$ 2,904,801</u> | <u>\$ 2,456,990</u> | <u>103.2 %</u> | <u>70.9 %</u> | <u>88.0 %</u> | <u>74.6 %</u> | <u>60.5 %</u> |
| <u>\$ 992,448</u> | <u>\$ 1,605,480</u> | <u>(3.2) %</u> | <u>29.1 %</u> | <u>12.0 %</u> | <u>25.4 %</u> | <u>39.5 %</u> |
| <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | | | | | |
| \$ 992,448 | \$ 1,605,480 | | | | | |
| 6,904,664 | 5,299,184 | | | | | |
| <u>\$ 7,897,112</u> | <u>\$ 6,904,664</u> | | | | | |

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2020 | 2019 | 2018 |
| REVENUES | | | |
| Property Taxes | \$ 1,151,330 | \$ 1,217,346 | \$ 1,287,611 |
| Penalty and Interest | 14,908 | 15,292 | 16,011 |
| Investment and Miscellaneous Revenues | <u>2,037</u> | <u>3,745</u> | <u>607</u> |
| TOTAL REVENUES | <u>\$ 1,168,275</u> | <u>\$ 1,236,383</u> | <u>\$ 1,304,229</u> |
| EXPENDITURES | | | |
| Other Expenditures | \$ 73,137 | \$ 72,006 | \$ 73,653 |
| Debt Service Principal | 335,000 | 1,035,000 | 1,005,000 |
| Debt Service Interest and Fees | <u>219,646</u> | <u>242,535</u> | <u>273,389</u> |
| TOTAL EXPENDITURES | <u>\$ 627,783</u> | <u>\$ 1,349,541</u> | <u>\$ 1,352,042</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ 540,492</u> | <u>\$ (113,158)</u> | <u>\$ (47,813)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | <u>\$ 140,000</u> | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> |
| NET CHANGE IN FUND BALANCE | \$ 680,492 | \$ (113,158) | \$ (47,813) |
| BEGINNING FUND BALANCE | <u>63,918</u> | <u>177,076</u> | <u>224,889</u> |
| ENDING FUND BALANCE | <u>\$ 744,410</u> | <u>\$ 63,918</u> | <u>\$ 177,076</u> |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | <u>2,710</u> | <u>2,719</u> | <u>2,713</u> |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | <u>2,647</u> | <u>2,615</u> | <u>2,610</u> |

See accompanying independent auditor's report.

| | | Percentage of Total Revenues | | | | |
|---------------------|---------------------|------------------------------|----------------|----------------|----------------|----------------|
| <u>2017</u> | <u>2016</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
| \$ 1,246,333 | \$ 1,328,362 | 98.6 % | 98.7 % | 98.7 % | 99.0 % | 98.6 % |
| 11,831 | 18,090 | 1.3 | 1.2 | 1.2 | 0.9 | 1.3 |
| 1,807 | 803 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| <u>\$ 1,259,971</u> | <u>\$ 1,347,255</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 68,255 | \$ 71,068 | 6.3 % | 5.8 % | 5.6 % | 5.4 % | 5.3 % |
| 965,000 | 935,000 | 28.7 | 83.7 | 77.1 | 76.6 | 69.4 |
| 304,730 | 321,925 | 18.8 | 19.6 | 21.0 | 24.2 | 23.9 |
| <u>\$ 1,337,985</u> | <u>\$ 1,327,993</u> | <u>53.8 %</u> | <u>109.1 %</u> | <u>103.7 %</u> | <u>106.2 %</u> | <u>98.6 %</u> |
| <u>\$ (78,014)</u> | <u>\$ 19,262</u> | <u>46.2 %</u> | <u>(9.1) %</u> | <u>(3.7) %</u> | <u>(6.2) %</u> | <u>1.4 %</u> |
| <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | | | | | |
| \$ (78,014) | \$ 19,262 | | | | | |
| 302,903 | 283,641 | | | | | |
| <u>\$ 224,889</u> | <u>\$ 302,903</u> | | | | | |
| <u>2,709</u> | <u>2,708</u> | | | | | |
| <u>2,607</u> | <u>2,606</u> | | | | | |

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2020**

District Mailing Address - Faulkey Gully Municipal Utility District
13121 Louetta Road #1040
Cypress, TX 77429-5155

District Telephone Number - (281) 320-2470

| Board Members | Term of Office (Elected or Appointed) | Fees of office for the year ended March 31, 2020 | Expense reimbursements for the year ended March 31, 2020 | <u>Title</u> |
|----------------------|--|---|---|--|
| J. Douglas Allen | 05/17 05/21 (Elected) | \$ 6,900 | \$ 5,158 | President |
| Michelle L. Steadman | 05/19 05/23 (Elected) | \$ 6,075 | \$ 2,420 | Vice President |
| Bill F. Cheves | 05/19 05/23 (Elected) | \$ 4,350 | \$ 1,241 | Secretary/ Assistant Vice President |
| John M. Prewitt | 05/17 05/21 (Elected) | \$ 5,025 | \$ 2,330 | Treasurer/ Investment Officer |
| Mark H. Szyman | 05/19 05/23 (Elected) | \$ 6,975 | \$ 9,581 | Assistant Secretary |

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

Submission date of most recent District Registration Form: May 22, 2019

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on July 17, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2020**

| Employee | <u>Date Hired</u> | <u>Fees for the year ended March 31, 2020 District</u> | <u>Fees for the year ended March 31, 2020 STP</u> | <u>Title</u> |
|---|-------------------|--|---|-------------------------------|
| Barbara J. Evans | 11/01/79 | \$ 31,436 | \$ 13,201 | District Administrator |
| Consultants: | | | | |
| Coats Rose, P.C. | 09/01/80 | \$ 113,539 | \$ 12,010 | General Counsel |
| McCall Gibson Swedlund Barfoot PLLC | 09/17/87 | \$ 16,000 | \$ 3,000 | Auditor |
| L & S District Services, LLC | 04/15/99 | \$ 16,440 | \$ 4,105 | Bookkeeper |
| Perdue, Brandon, Fielder, Collins & Mott, L.L.P. | 02/15/96 | \$ 4,915 | \$ -0- | Delinquent Tax Attorney |
| A&S Engineers, Inc. | 06/13/13 | \$ 191,935 | \$ 236,185 | Engineer |
| The GMS Group, LLC | 11/29/95 | \$ -0- | \$ -0- | Financial Advisor |
| Eagle Water Management, Inc. | 02/19/09 | \$ 205,877 | \$ 60,170 | Prior Operator |
| Municipal Operations & Consulting, Inc. | 07/18/19 | \$ 309,243 | \$ 56,905 | Operator |
| Assessments of the Southwest | 11/20/79 | \$ 38,444 | \$ -0- | 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