

OFFICIAL STATEMENT MARCH 11, 2021

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

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

NEW ISSUE - Book-Entry-Only

Insured Rating (BAM): S&P "AA" (stable outlook)
Underlying Rating: S&P "A"
See "MUNICIPAL BOND RATING" and
"MUNICIPAL BOND INSURANCE" herein.

\$2,875,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120

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

UNLIMITED TAX BONDS, SERIES 2021

Dated: April 1, 2021

Due: August 1, as shown below

Principal of the Bonds will be payable at stated maturity or redemption upon presentation of the Bonds at the principal payment office of the paying agent/registrars, initially The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent/Registrar," "Paying Agent" or "Registrar") in Dallas, Texas. Interest on the Bonds will accrue from April 1, 2021 and be payable on August 1, 2021 (four months of interest) and on each February 1 and August 1 thereafter until the earlier of maturity or redemption. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued only in fully registered form in \$5,000 denominations or integral multiples thereof. The Bonds are subject to redemption prior to maturity as shown below.

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



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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (Aug 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Due (Aug 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2023	\$ 25,000	1.000%	0.40%	414935 LT1	2028	\$ 550,000 (c)	1.000%	1.10%	414935 LY0
2024	25,000	1.000	0.55	414935 LU8	2029	550,000 (c)	1.125	1.20	414935 LZ7
2025	25,000	1.000	0.70	414935 LV6	2030	550,000 (c)	1.250	1.30	414935 MA1
2026	300,000	1.000	0.80	414935 LW4	2031	550,000 (c)	1.375	1.40	414935 MB9
2027	300,000 (c)	1.000	1.00	414935 LX2					

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Initial Purchaser (as herein defined) for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest from April 1, 2021, is to be added to the price.
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Bonds maturing on and after August 1, 2027, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on August 1, 2026, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See "THE BONDS—Redemption Provisions."

The Bonds, when issued, will constitute valid and legally binding obligations of Harris County Municipal Utility District No. 120 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. The Bonds are subject to special investment risks described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject to, among other things, the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Bond Counsel. Delivery of the Bonds is expected on or about April 15, 2021.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, upon payment of duplication costs.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12, as amended.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE FINANCING

<i>The Issuer</i>	Harris County Municipal Utility District No. 120 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”
<i>The Issue</i>	\$2,875,000 Unlimited Tax Bonds, Series 2021 (the “Bonds”) are issued pursuant to a resolution (the “Bond Resolution”) of the District’s Board of Directors and an election held within the District on September 12, 1981. See “THE BONDS—Authority for Issuance.” The Bonds will be issued as fully registered serial bonds maturing August 1 in each of the years 2023 through 2031, both inclusive, in the amounts and paying interest at the rates shown on the cover hereof. Interest on the Bonds accrues from April 1, 2021 and is payable on August 1, 2021 (four months of interest), and on each February 1 and August 1 thereafter until the earlier of maturity or prior redemption. See “THE BONDS.” The Bonds maturing on and after August 1, 2027, are subject to redemption, in whole or in part, at the option of the District, prior to their maturity dates, on August 1, 2026, or on any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. See “THE BONDS.”
<i>Book-Entry-Only System</i>	The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully- registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”
<i>Source of Payment</i>	The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “TAX PROCEDURES.” The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any other political subdivision or agency other than the District. See “THE BONDS—Source of and Security for Payment.”
<i>Payment Record</i>	The District has previously issued three series of combination unlimited tax and revenue bonds, six series of unlimited tax bonds, and six series of unlimited tax refunding bonds, of which a total of \$6,735,000 principal amount are currently outstanding (the “Outstanding Bonds”). The District has never defaulted in the payment of principal and interest on any bonds issued by the District.
<i>Use of Proceeds</i>	Proceeds from sale of the Bonds will be used to finance 1) water line loops; 2) water line rehabilitation; 3) a generator for Water Plant No. Two; 4) smart electronic water meters; and 5) engineering and testing related to items 1 through 3. Bond proceeds also will be used to pay certain costs associated with the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
<i>Qualified Tax-Exempt Obligations</i>	The Bonds have been designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Municipal Bond Rating and Municipal Bond Insurance</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a 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 Build America Mutual Assurance Company (“BAM” or the “Insurer”). The Bonds also have been assigned an underlying credit rating of “A” by S&P without regard to credit enhancement. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND INSURANCE,” “MUNICIPAL BOND RATING,” and “APPENDIX B.”

<i>Bond Counsel</i>	Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See “MANAGEMENT,” “LEGAL MATTERS,” and “TAX MATTERS.”
<i>Financial Advisor</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT.”
<i>District Engineer</i>	LJA Engineering, Inc., Houston, Texas.
<i>Disclosure Counsel</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Investment Considerations</i>	The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully the entire Official Statement for a discussion of investment risks, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

INFECTIOUS DISEASE OUTBREAK (COVID-19)

<i>General</i>	The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. As described herein under “INVESTMENT CONSIDERATIONS—Infectious Disease Outbreak (COVID-19)”, federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.
<i>Impact</i>	Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition. The financial and operating data contained herein are the latest available but are as of dates and for periods partially prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition. See “INVESTMENT CONSIDERATIONS—Infectious Disease Outbreak (COVID-19).”

EXTREME WEATHER EVENTS; HURRICANE HARVEY

<i>General</i>	The greater Houston area, including Harris County and the City of Houston, is subject to occasional severe weather events, including tropical storms and hurricanes. If substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced multiple storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.
<i>Impact on the District</i>	According to LJA Engineering, Inc., Houston, Texas (the “Engineer”), the District's System (as defined herein) did not sustain any material damage, there was no interruption of water and sewer service, and no homes or commercial improvements within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

THE DISTRICT

Description The District is a political subdivision of the State of Texas, created by order of the Texas Water Rights Commission, now the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”) dated October 7, 1974. See “THE DISTRICT.” The District, which contains approximately 899 acres of land, is located approximately 20 miles west of downtown Houston, fronting on the west side of Texas State Highway 6 approximately one mile north of Alief-Clodine Road. The District is located adjacent to the city limits of the City of Houston between the Mission Bend and West Oaks Mall developments. See “THE DISTRICT” and “AERIAL PHOTOGRAPH.”

Status of Development The District includes single-family, multifamily and commercial development. Approximately 527 acres of land in the District have been developed into single-family residential subdivisions, including Clayton, Clayton Woods, Butler’s Bridge, Forestview, Oak Park Place, Clayton Oaks, Timbergate, Traditions at Clayton Park, Oak Park Ridge, Clayton Greens, Windmill Villas, Clayton Trace, Diamond Star, Addick Stone Village and Branch Forest subdivisions. Such subdivisions contain 2,480 single-family residential lots, and as of January 5, 2021, the District contained 2,412 single-family homes completed and occupied, 16 single-family homes completed and unoccupied, and 35 townhomes. The average value of the houses in the District on the 2020 tax rolls of the District is approximately \$143,559.

Multifamily development in the District includes approximately 73 acres developed into six apartment projects containing approximately 1,689 apartment units. According to the various apartments’ property management, occupancy rates range from approximately 85% to 99%. Other development on approximately 58 acres of land in the District includes various commercial, retail and service businesses including a Wal-Mart Superstore, Aldi Grocery Store, Family Dollar, Golden Corral, McDonald’s, Pizza Hut, Whataburger, Take 5 Oil Change, Valero gas station and convenience store, two daycare facilities, an office park, a nursing home, a self-storage facility, a hotel, and a small strip shopping center and various other commercial entities. An intermediate school and an elementary school are located in the District on approximately 28 acres. Two churches are also located in the District on approximately 26 acres. The schools and churches are not subject to ad valorem taxation by the District. Additionally, an RV park has been developed on approximately 20 acres in the District.

The District constructed McClendon Park, which is operated and maintained by Harris County. McLendon Park is open to the public and includes a fitness walking trail, playground equipment, a splash pad, a pavilion, a sand volleyball court, soccer and baseball fields, an amphitheater stage, and restroom facilities. Additionally, the District, along with the nonprofit Mission Bend Greenbelt Association, has constructed approximately 11 miles of walking trails throughout the District and Mission Bend area, which connect many small and large public parks to District residents. Additionally, various neighborhoods in the District have playground equipment and pocket parks.

Approximately 46 acres of land in the District are not provided with internal water distribution, wastewater collection and storm drainage facilities. However, trunk water supply and wastewater collection lines have been constructed along the major roadways located in the District. The District has no knowledge of any other imminent plans for development of any of the undeveloped acreage. The remaining 121 acres are located in easements, drainage facilities, plant sites, rights-of-way, parks and open spaces. See “STATUS OF DEVELOPMENT.”

SELECTED FINANCIAL INFORMATION

2020 Certified Taxable Assessed Valuation	\$574,544,480(a)
Gross Debt Outstanding (after the issuance of the Bonds)	\$9,610,000
Estimated Overlapping Debt	<u>14,764,402</u>
Gross Debt and Estimated Overlapping Debt	\$24,374,402 (b)
Ratio of Gross Debt to:	
2020 Certified Taxable Assessed Valuation	1.67%
Ratio of Gross Debt and Estimated Overlapping Debt to:	
2020 Certified Taxable Assessed Valuation	4.24%
2020 Tax Rate:	
Debt Service.....	\$0.245
Maintenance and Operations.....	<u>0.195</u>
Total	\$0.440/\$100 A.V.
Average percentage of total tax collections (2016-2020)	98.93%
Maximum Annual Debt Service Requirements (2022)	
of the Outstanding Bonds and the Bonds (“Maximum Annual Requirement”)	\$1,409,213 (c)
Average Annual Debt Service Requirements (2021-2031)	
of the Outstanding Bonds and the Bonds (“Average Annual Requirement”)	\$975,430 (c)
Tax rate required to pay Maximum Annual Requirement based upon:	
2020 Certified Taxable Assessed Valuation at a 95% collection rate	\$0.26/\$100 A.V. (d)
Tax rate required to pay Average Annual Requirement based upon:	
2020 Certified Taxable Assessed Valuation at a 95% collection rate	\$0.18/\$100 A.V. (d)
Status of Water and Sewer Connections as of January 5, 2021 (e):	
Active single-family connections.....	2,412
Vacant single-family connections	16
Townhouses	35
Multifamily (1,689 units)	15
Commercial connections.....	40
Other (irrigation, District and Out-of-District).....	<u>119</u>
Total.....	2,637
Estimated 2020 Population	11,890(f)

(a) A certified by the Harris County Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”

(b) See “ESTIMATED OVERLAPPING DEBT STATEMENT.”

(c) See “DEBT SERVICE REQUIREMENTS.”

(d) See “TAX DATA—Tax Adequacy for Debt Service.”

(e) See “THE DISTRICT—Status of Development.”

(f) Estimate based on 3.5 persons per occupied single-family connection and 2 persons per townhome or apartment unit.

OFFICIAL STATEMENT

\$2,875,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
(A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX BONDS
SERIES 2021

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 120 (the "District") of its \$2,875,000 Unlimited Tax Bonds, Series 2021 (the "Bonds").

The Bonds are issued pursuant to an election held within the District, Article XVI, Section 59 of the Texas Constitution, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), an order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission") and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from the District upon payment of the costs of duplication therefor.

THE BONDS

General

Following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution of the Board authorizing the issuance and sale of the Bonds. The Bond Resolution authorizes the issuance and sale of the Bonds and prescribes the terms, conditions, and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds will be dated and accrue interest from April 1, 2021 and are payable on each August 1 and February 1 commencing August 1, 2021 (four months of interest), until the earlier of maturity or prior redemption. The Bonds mature on August 1 in the amounts and years and accrue interest at the rates shown on the cover page of this Official Statement. Interest calculations are based on a 360-day year comprised of twelve 30-day months. The Bonds will be issued only in fully registered form in \$5,000 denominations or integral multiples thereof.

Method of Payment of Principal and Interest

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

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

Authority for Issuance

At a bond election held within the District on September 12, 1981, the voters of the District authorized the issuance of a total of \$31,710,000 principal amount of unlimited tax bonds for construction of the water, sanitary sewer and drainage system (the "System"). After issuance of the Bonds, \$3,685,000 principal amount of unlimited tax bonds for construction of the System will remain authorized but unissued. See "Issuance of Additional Debt" below. The Commission has authorized the District to sell the Bonds for the purposes described in "THE SYSTEM—Use and Distribution of Bond Proceeds."

The Bonds are issued by the District pursuant to the terms and provisions of the Bond Resolution, an order of the Commission, Article XVI, Section 59 of the Texas Constitution, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

Source of and Security for Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants in the Bond Resolution to levy a continuing, direct, annual ad valorem tax, without legal limit as to rate or amount, upon all taxable property in the District sufficient to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection.

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

Funds

In the Bond Resolution, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds from sale of the Bonds, including interest earnings thereon, shall be deposited into the Capital Projects Fund, to pay the costs of acquiring or constructing District facilities and for paying the costs of issuing the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a more complete description of the use of Bond proceeds.

No Arbitrage

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

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after August 1, 2027, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000, on August 1, 2026, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if fewer than all of the Bonds outstanding within any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest that would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution. While the Bonds are in the Book-Entry-Only System, the Bonds will be registered in the name of Cede & Co. and will not be transferred. See “BOOK-ENTRY-ONLY SYSTEM.”

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

After issuance of the Bonds, the District will have \$3,685,000 of unlimited tax bonds authorized but unissued for construction of the System, and \$11,715,000 of unlimited tax bonds authorized but unissued for refunding purposes. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. See “THE DISTRICT—Future Debt.”

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) approval of a detailed fire plan by the Commission; (b) authorization of a detailed fire plan and bonds for such purpose by the qualified voters in the District; (c) approval of the bonds for such purpose by the Commission; and (d) approval of the bonds by the Attorney General of Texas. The Board has not considered preparing a fire plan or calling such an election at this time. The District receives fire protection and emergency medical services from Harris-Fort Bend Emergency Services District No. 100. See “ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Tax Rates for 2020.”

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) amendments to existing city ordinances specifying the purposes for which the District may issue bonds; (b) preparation of a detailed park plan; (c) authorization of park bonds by the qualified voters in the District; (d) approval of the park project and bonds by the Commission; and (e) 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. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time but has used surplus operating revenues to build recreational facilities.

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission or the Texas Legislature, consent from the City of Houston, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered acquiring “road powers” nor calling such an election at this time.

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

Annexation by the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; 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. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See "Strategic Partnership Agreement" below.

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

Strategic Partnership Agreement

The District has entered into a strategic partnership agreement with the City of Houston, as amended three times to include additional acreage, whereby a portion of land within the District was annexed for limited purposes into the City of Houston. See "THE DISTRICT—Strategic Partnership Agreement."

Consolidation

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

Remedies in Event of Default

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds, of each series will be issued as fully-registered Bonds 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. With respect to each series of the Bonds, one fully-registered Bond certificate will be issued of each such series for each maturity of the Bonds, each in the aggregate principal amount 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 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 less than all of the Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the District or the Paying Agent/Registrar, on payable dates 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 Bonds 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. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/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 Bonds 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, Bond certificates 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, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Initial Purchaser take any responsibility for the accuracy thereof.

THE DISTRICT

General

Harris County Municipal Utility District No. 120 (the "District") is a municipal utility district created by order of the Texas Water Rights Commission, now known as the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), dated October 7, 1974, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes applicable to municipal utility districts. The District is located wholly within the exclusive extraterritorial jurisdiction of the City of Houston, Texas (the "City of Houston").

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to contract for or employ its own peace officers and, after approval by the City, the Commission and the voters of the District, to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts. Additionally, the District may, subject to certain limitations, develop and finance parks and recreational facilities and roads.

The Commission exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, drainage, parks and recreational facilities, and roads and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City of Houston. Construction and operation of the System are subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM."

The District contains approximately 899 acres of land. The District is located approximately 20 miles west of downtown Houston, fronting on the west side of Texas State Highway 6 approximately one mile north of Alief-Clodine Road. West Oaks Mall and the Mission Bend development are located immediately north and south of the District, respectively. See "AERIAL PHOTOGRAPH."

Status of Development

The District includes single-family, multifamily and commercial development. Approximately 527 acres of land in the District have been developed into single-family residential subdivisions, including Clayton, Clayton Woods, Butler's Bridge, Forestview, Oak Park Place, Clayton Oaks, Timbergate, Traditions at Clayton Park, Oak Park Ridge, Clayton Greens, Windmill Villas, Clayton Trace, Diamond Star, Addick Stone Village and Branch Forest subdivisions. Such subdivisions contain 2,480 single-family residential lots, and as of January 5, 2021, the District contained 2,412 single-family homes completed and occupied, 16 single-family homes completed and unoccupied, 1 single-family home owned by a builder, and 35 townhomes. The average value of the houses in the District on the 2020 tax rolls of the District is approximately \$143,559.

Multifamily development in the District includes approximately 73 acres developed into six apartment projects containing approximately 1,689 apartment units. According to the various apartments' property management, occupancy rates range from approximately 85% to 99%. Other development on approximately 58 acres of land in the District includes various commercial, retail and service businesses including a Wal-Mart Superstore, Aldi Grocery Store, Family Dollar, Golden Corral, McDonald's, Pizza Hut, Whataburger, Take 5 Oil Change, Valero gas station and convenience store, two daycare facilities, an office park, a nursing home, a self-storage facility, a hotel, and a small strip shopping center and various other commercial entities. An intermediate school and an elementary school are located in the District on approximately 28 acres. Two churches are also located in the District on approximately 26 acres. The schools and churches are not subject to ad valorem taxation by the District. Additionally, an RV park has been developed on approximately 20 acres in the District.

The District constructed McClendon Park, which is operated and maintained by Harris County. McLendon Park is open to the public and includes a fitness walking trail, playground equipment, a splash pad, a pavilion, a sand volleyball court, soccer and baseball fields, an amphitheater stage, and restroom facilities. Additionally, the District, along with the nonprofit Mission Bend Greenbelt Association, has constructed approximately 11 miles of walking trails throughout the District and Mission Bend area, which connect many small and large public parks to District residents. Additionally, various neighborhoods in the District have playground equipment and pocket parks.

Approximately 46 acres of land in the District are not provided with internal water distribution, wastewater collection and storm drainage facilities. However, trunk water supply and wastewater collection lines have been constructed along the major roadways located in the District. The District has no knowledge of any other imminent plans for development of any of the undeveloped acreage. The remaining 121 acres are located in easements, drainage facilities, plant sites, rights-of-way, parks and open spaces.

Community Facilities

Community facilities are available in the general vicinity of the District. Neighborhood shopping facilities, including supermarkets, pharmacies, cleaners, restaurants, banking facilities, and other retail and service establishments, are located within two miles of the District in the Mission Bend area and those areas adjacent to SH 6. West Oaks Mall, a regional shopping center, is located at the intersection of SH 6 and Westheimer Road approximately one mile north of the District. Fire protection and emergency medical services are provided by Harris-Fort Bend Emergency Services District No. 100. Children residing within the District attend schools within the Alief Independent School District.

Strategic Partnership Agreement

On April 11, 2003, the District entered into a Strategic Partnership Agreement (the "SPA") with the City of Houston (the "City") pursuant to Chapter 43 of the Texas Local Government Code. The SPA was amended in 2005, 2007 and 2013 to include additional commercial acreage. The SPA provides for a "limited purpose annexation" of that portion of the District developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Residential development within the District is not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for "full purposes" for at least thirty (30) years from the effective date of the original SPA, which is 2033. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater, and drainage facilities must be assumed by the City to the maximum extent permitted by Commission rules.

Upon execution of the SPA, the City imposed the one percent (1%) retail City Sales Tax within the portion of the District included in the limited purpose annexation. The City pays to the District an amount equal to one-half of all retail sales tax revenues generated within such area of the District and received by the City from the Comptroller (herein defined as the "Contract Sales Tax Revenue"). Pursuant to State law, the District is authorized to use the Contract Sales Tax Revenue generated under the SPA for any lawful purpose. None of the anticipated Contract Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds.

MANAGEMENT

Board of Directors

The District is governed by a Board of Directors, consisting of five directors, which has control over and management supervision of all affairs of the District. All of the Directors listed below reside in the District. Directors are elected by the voters within the District for four-year staggered terms. Directors elections are held only in even numbered years. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Gassmann	President	May 2022
Frances Browning	Vice President	May 2022
William J. Hammer	Secretary	May 2024
Tracy L. Jones	Assistant Vice President	May 2024
Sylvia Marinez	Assistant Secretary	May 2024

While the District does not employ any full-time employees, it has contracted for certain services as follows:

Tax Assessor/Collector

Land and improvements within the District are appraised for ad valorem taxation purposes by Harris County Appraisal District. The District's contracts with Tax Tech, Inc. to serve as Tax Assessor/Collector.

Bookkeeper

The District has engaged Municipal Accounts & Consulting, L.P. to serve as the District's bookkeeper.

System Operator

The District contracts with Environmental Development Partners, LLC for maintenance and operation of the District's system.

Engineer

The consulting engineer for the District in connection with the design and construction of the District's facilities is LJA Engineering, Inc. (the "Engineer").

Attorney

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

Financial Advisor

Masterson Advisors LLC (the "Financial Advisor") serves as financial advisor to the District. The fees to be paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

Disclosure Counsel

The District has engaged McCall, Parkhurst & Horton L.L.P., Houston, Texas as disclosure counsel. The fees paid to disclosure counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the Commission. The District's financial statements for the fiscal year ending December 31, 2019, were audited by the independent account firm of McCall Gibson Swedlund Barfoot, PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the audited financial statement of the District as of December 31, 2019. The District has engaged McCall Gibson Swedlund Barfoot, PLLC, Certified Public Accountants to audit the District's financial statements for the fiscal year ending December 31, 2020.

THE SYSTEM

Regulation

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

Water, Sanitary Sewer and Drainage Facilities

Source of Water Supply: The District is presently served by two water plants. Water Plant No. 1 includes a 1,200 gallon per minute ("gpm") well and pump, a 500,000 gallon ground storage tank, two 15,000 gallon pressure tanks and four booster pumps with a total combined capacity of 4,000 gpm. Water Plant No. 2 consists of a 2,500 gpm well, a 500,000 gallon ground storage tank, two 25,000 gallon pressure tank and four 1,200 gpm booster pumps. The District's Engineer has stated that the present water supply facilities are capable of serving approximately 4,560 equivalent single-family residential connections. At present, the District is serving approximately 3,763 equivalent single-family connections. The District maintains emergency waterline interconnects with Harris County Municipal Utility District No. 147 and Chelford One Municipal Utility District.

Subsidence and Conversion to Surface Water Supply: The District is within the boundaries of the Harris Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 2001, the Texas legislature created the West Harris County Regional Water Authority ("Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District's groundwater well(s) are included within the Authority's GRP.

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

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

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

Source of Wastewater Treatment: Permanent wastewater treatment is provided by the Chelford City Regional Wastewater Treatment Plant (the "Regional Plant"), which has a total capacity of 11 million gallons per day ("gpd"). The District owns 3,010,952 gpd capacity in the Regional Plant, which, according to the Engineer, should be sufficient to serve the ultimate build-out of the District. The wastewater collection system within the District consists of a network of collection lines which convey sewage to trunklines owned by several districts for transportation to the Regional Plant.

100-Year Flood Plain: "Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rainstorm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District's drainage system has been designed and constructed to all current standards. See "INVESTMENT CONSIDERATIONS—Extreme Weather Events; Hurricane Harvey."

According to the Engineer, approximately 119 developable acres within the District, consisting of approximately 99 acres previously improved with 326 lots (321 homes) and the sites containing The Falls Apartments, Grace Church and a commercial strip center and approximately 19 acres to be developed, lie within the 100-year flood plain as designated by the Federal Insurance Administration Flood Hazard Boundary Map for the area, dated June 18, 2007. A final determination has not been conducted by the District to verify if the finished floor elevation of such structures was elevated above the 100-year flood plain elevation. An additional 32 acres contained in a flood control ditch and 27 undevelopable acres lie within the 100-year flood plain.

Atlas 14: 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 upon the Atlas 14 study, which is based upon a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties 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.

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled the Engineer and were submitted to the Commission in the District’s Bond Application. Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and Masterson Advisors LLC (the “Financial Advisor”). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and review by the District’s auditor. The estimated use and distribution of Bond proceeds is shown below. Of proceeds to be received from sale of the Bonds, \$2,541,800 is estimated for construction costs, and \$333,200 is estimated for non-construction costs.

CONSTRUCTION COSTS

Water Line Loops	\$ 350,000
Water Line Rehabilitation Phase I.....	510,000
Generator at Water Plant No. 2.....	450,000
Automated Meters Throughout the District.....	979,000
Engineering.....	227,000
Testing.....	25,800

Total Construction Costs **\$ 2,541,800**

NON-CONSTRUCTION COSTS

Legal Fees	\$ 86,250
Financial Advisory Fees.....	57,500
Bond Discount.....	43,355
Bond Issuance Expenses.....	43,137
Bond Application Report.....	50,000
TCEQ Fee (0.25%).....	7,188
Attorney General Fee.....	2,875
Contingency (a).....	42,896

Total Non-Construction Costs **\$ 333,200**

TOTAL BOND ISSUE **\$ 2,875,000**

(a) Represents surplus funds resulting from the sale of the Bonds at a lower bond discount than estimated and can be used for purposes allowed and approved by the Commission.

In the event approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses in accordance with the rules of the Commission.

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
9/12/1981	Water, Sanitary Sewer and Drainage	\$31,710,000	\$28,025,000*	\$3,685,000
5/4/1991	Refunding	\$15,000,000	\$3,285,000	\$11,715,000

* Includes the Bonds.

FINANCIAL STATEMENT

2020 Certified Taxable Assessed Valuation	\$574,544,480 (a)
Gross Debt Outstanding (after the issuance of the Bonds)	\$9,610,000
Ratio of Gross Debt to:	
2020 Certified Taxable Assessed Valuation	1.67%

Area of District — 899 acres
 Estimated 2020 Population — 11,890 (b)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
 (b) Estimate based on 3.5 persons per occupied single-family connection and 2 persons per townhome or apartment unit.

Cash and Investment Balances (unaudited as of February 11, 2021)

Operating Fund	Cash and Temporary Investments	\$6,188,082
Debt Service Fund	Cash and Temporary Investments	\$1,213,790 (a)

- (a) Neither the Bond Resolution nor Texas law requires that the District maintain any particular balance in the Debt Service Fund.

Outstanding Bonds (as of February 1, 2021)

Series	Original Principal Amount	Outstanding Bonds (as of 2/1/2021)
2012	\$ 5,985,000	\$ 2,075,000
2012A (a)	4,730,000	1,130,000
2016 (a)	4,300,000	3,530,000
Total	\$ 15,015,000	\$ 6,735,000

- (a) Unlimited tax refunding bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds (“Tax Debt”) was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of the overlapping Tax Debt of the District.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,743,427,125	12/31/2020	0.12%	\$ 2,092,113
Harris County Flood Control District.....	334,270,000	12/31/2020	0.12%	401,124
Harris County Department of Education.....	20,185,000	12/31/2020	0.12%	24,222
Harris County Hospital District.....	86,050,000	12/31/2020	0.12%	103,260
Port of Houston Authority.....	492,439,397	12/31/2020	0.12%	590,927
Alief Independent School District.....	316,792,000	12/31/2020	3.23%	10,232,382
Houston Community College District.....	528,150,000	12/31/2020	0.25%	1,320,375
Total Estimated Overlapping Debt.....				\$ 14,764,402
The District.....	9,610,000 (a)	Current	100.00%	9,610,000
Total Direct and Estimated Overlapping Debt.....				\$ 24,374,402

Ratios of Gross Debt and Estimated Overlapping Debt to:
 2020 Certified Taxable Assessed Valuation.....4.24%

(a) Includes the Outstanding Bonds and the Bonds.

Overlapping Tax Rates for 2020

	2020 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority.....	\$ 0.604193
Alief Independent School District.....	1.204800
Harris-Fort Bend ESD No. 100.....	0.085000
Houston Community College.....	<u>0.100263</u>
Total Overlapping Tax Rate.....	\$ 1.994256
The District.....	<u>0.440000</u>
Total Tax Rate.....	\$ 2.434256

TAX DATA

Tax Collections

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

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of January 31, 2021 (a)	
				Amount	Percent
2016	\$ 438,231,370	\$ 0.520	\$ 2,278,803	\$ 2,276,885	99.92%
2017	476,224,696	0.500	2,381,124	2,376,642	99.81%
2018	494,355,311	0.480	2,373,285	2,368,761	99.81%
2019	542,174,100	0.455	2,466,980	2,451,387	99.37%
2020	574,544,480	0.440	2,514,652	2,407,276	95.73%

(a) Unaudited.

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. No split payments are allowed, and no discounts are allowed.

Tax Rate Distribution

	2020	2019	2018	2017	2016
Debt Service	\$ 0.245	\$ 0.255	\$ 0.280	\$ 0.300	\$ 0.320
Maintenance and Operations	0.195	0.200	0.200	0.200	0.200
Total	\$ 0.440	\$ 0.455	\$ 0.480	\$ 0.500	\$ 0.520

Tax Rate Limitations

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

Maintenance and Operations: \$0.20 per \$100 of taxable assessed valuation.

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2020 in the amount of \$0.245 per \$100 of taxable assessed valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. On November 6, 2001, the District's voters authorized the Board to levy such a maintenance tax in an amount not to exceed \$0.20 per \$100 of taxable assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds. The District levied a maintenance tax for 2020 at the rate of \$0.195 per \$100 of taxable assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds.

Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. For tax year 2021, the District has adopted a 20% homestead exemption for any residential homesteads in the District and has exempted \$40,000 of the taxable assessed value of resident homesteads for persons who are disabled or 65 years of age or older.

Additional Penalties

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District established an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than May 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Property Tax Code.

Principal Taxpayers

The following list of principal taxpayers was provided by the District's tax assessor/collector and represents the principal taxpayers' value as a percentage of the 2020 Certified Taxable Assessed Valuation. This represents ownership as of January 1, 2020.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2020 Certified Taxable Assessed Valuation</u>	<u>% of 2020 Certified Taxable Assessed Valuation</u>
MACG Houston Towne West LLC	Apartments	\$ 36,116,577	6.29%
GPI West Oaks II LP	Apartments	34,326,825	5.97%
Wal-Mart Real Estate	Commercial/Retail	20,437,044	3.56%
Falls of West Oaks Lmtd Prnshp	Apartments	20,250,075	3.52%
Addickstone LLC	Townhomes	10,947,200	1.91%
AT Owner 3 LP	Apartments	8,598,735	1.50%
Texas MSI Ltd	Apartments	8,105,478	1.41%
West Oaks Finlay Ptnr III	Apartments	6,968,835	1.21%
Fur Series LLC	Retail Shopping Center	4,923,394	0.86%
MDC Coast 18 LLC	Restaurant	4,725,230	0.82%
Total		<u>\$ 155,399,393</u>	<u>27.05%</u>

Summary of Assessed Valuation

The following summary of the 2020, 2019, and 2018 Certified Taxable Assessed Valuations are provided by the District's Tax Assessor/Collector based on information provided by the Appraisal District and contained in the 2020, 2019, and 2018 certified tax rolls of the District. Differences in totals may vary slightly from other information herein due to differences in dates of data.

	<u>2020 Certified Taxable Assessed Valuation</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>2018 Certified Taxable Assessed Valuation</u>
Land	\$ 153,595,964	\$ 138,723,746	\$ 124,292,137
Improvements	506,989,437	479,691,221	439,592,327
Personal Property	17,167,786	17,378,798	18,008,321
Exemptions	<u>(103,208,707)</u>	<u>(93,619,665)</u>	<u>(87,537,474)</u>
Total	<u>\$ 574,544,480</u>	<u>\$ 542,174,100</u>	<u>\$ 494,355,311</u>

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2020 Certified Taxable Assessed Valuation, no use of available funds, and utilize tax rates necessary to pay the District's average and maximum annual debt service requirements on the Outstanding Bonds and the Bonds.

Maximum annual debt service requirement (2022)	\$1,409,213
\$0.26 tax rate on the 2020 Certified Taxable Assessed Valuation	
of \$574,544,480 at a 95% collection rate produces	\$1,419,125
Average annual debt service requirement (2021-2031)	\$975,430
\$0.18 tax rate on the 2020 Certified Taxable Assessed Valuation	
of \$574,544,480 at a 95% collection rate produces	\$982,471

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 of and interest on the Outstanding Bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolutions to levy such a tax from year to year as described more fully herein under “THE BONDS—Source of 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 for the payment of certain contractual obligations. See “TAX DATA—Debt Service Tax” and “Maintenance Tax.”

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

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

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

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

Tax Abatement

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

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 Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use, open space land, and timberland.

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

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

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

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the taxpayer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

Rollback of Operation and Maintenance Tax Rate

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 year. The District is designated as a "Developed District" for tax year 2020. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Tax Rates for 2020." 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.

The Effect of FIRREA on Tax Collections of the District

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”) contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation (“FDIC”) when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

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WATER AND SEWER OPERATIONS

General

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

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and, in all instances, exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for fiscal years December 31, 2016 through 2019, and an unaudited summary for fiscal year ending December 31, 2020, prepared by the District's bookkeeper. Reference is made to such statements and records for further and more complete information.

	Fiscal Year Ended December 31				
	2020 (a)	2019	2018	2017	2016
Revenues					
Property Taxes	\$ 1,047,557	\$ 987,411	\$ 956,042	\$ 885,858	\$ 813,031
Water Service	656,617	683,749	723,817	705,223	729,070
Wastewater Service	611,563	736,823	731,874	731,426	721,416
Regional Water Authority Fee	1,333,700	1,201,707	1,121,510	1,020,165	901,033
Penalty and Interest	46,824	70,194	52,536	48,591	43,416
Sales Tax Revenues	287,938	306,214	320,959	295,622	295,388
Tap Connection and Inspection Fees	24,825	26,505	145,735	78,143	181,880
Investment and Miscellaneous Revenues	30,852	187,876	159,907	65,382	24,835
Total Revenues	\$ 4,039,876	\$ 4,200,479	\$ 4,212,380	\$ 3,830,410	\$ 3,710,069
Expenditures					
Professional Fees	\$ 265,789	\$ 238,210	\$ 207,305	\$ 224,910	\$ 247,566
Contracted Services	183,800	201,273	199,378	164,564	163,819
Purchased Wastewater Service	703,739	519,827	654,094	768,091	508,030
Utilities	91,273	101,228	114,382	116,362	128,091
Regional Water Authority Assessment	1,288,957	1,230,994	1,028,408	924,588	864,270
Repairs and Maintenance	572,533	566,380	538,759	448,418	433,795
Other	307,870	259,786	277,455	265,929	327,098
Capital Outlay	1,133,636 (b)	502,314	280,608	560,661	175,582
Total Expenditures	\$ 4,547,597	\$ 3,620,012	\$ 3,300,389	\$ 3,473,523	\$ 2,848,251
Revenues Over (Under) Expenditures	\$ (507,721)	\$ 580,467	\$ 911,991	\$ 356,887	\$ 861,818
Other Sources (Interfund Transfer)					\$ -
Fund Balance (Beginning of Year)	\$ 6,846,639	\$ 6,266,172	\$ 5,354,181	\$ 4,997,294	\$ 4,135,476
Fund Balance (End of Year)	\$ 6,338,918	\$ 6,846,639	\$ 6,266,172	\$ 5,354,181	\$ 4,997,294

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

(b) Approximately \$814,000 of such amount was expended for planned rehabilitation of the District's sanitary sewer system.

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the Outstanding Bonds and the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2021	\$ 1,372,138		\$ 10,958	\$ 10,958	\$ 1,383,096
2022	1,376,338		32,875	32,875	1,409,213
2023	1,139,488	\$ 25,000	32,875	57,875	1,197,363
2024	1,104,788	25,000	32,625	57,625	1,162,413
2025	1,064,800	25,000	32,375	57,375	1,122,175
2026	778,425	300,000	32,125	332,125	1,110,550
2027	747,050	300,000	29,125	329,125	1,076,175
2028	-	550,000	26,125	576,125	576,125
2029	-	550,000	20,625	570,625	570,625
2030	-	550,000	14,438	564,438	564,438
2031	-	550,000	7,563	557,563	557,563
Total	\$ 7,583,025	\$ 2,875,000	\$ 271,708	\$ 3,146,708	\$ 10,729,733

Average Annual Debt Service Requirements (2021-2031).....\$975,430
 Maximum Annual Debt Service Requirements (2022)\$1,409,213

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INVESTMENT CONSIDERATIONS

General

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

Infectious Disease Outbreak (COVID-19)

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

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

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

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

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available but are as of dates and for periods partially prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

Potential Effects of Oil Price Declines on the Houston Area

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

Extreme Weather Events; Hurricane Harvey

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

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

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

Specific Flood Type Risks

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

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

Landowner Obligation to the District

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

Maximum Impact on District Tax Rate

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2020 Certified Taxable Assessed Valuation is \$574,544,480. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,409,213 (2022) and the average annual debt service requirement will be \$975,430 (2021-2031). Assuming no increase or decrease from the 2020 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.26 and \$0.18 per \$100 of assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and average annual debt service requirement, respectively. See “DEBT SERVICE REQUIREMENTS.” Although calculations have been made regarding the tax rate necessary to pay the maximum and average annual debt service on the Bonds based upon the 2020 Certified Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. See “TAX PROCEDURES” and “TAX DATA—Tax Adequacy for Debt Service.”

Future Debt

The District reserves in the Bond Resolution the right to issue the remaining \$3,685,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of constructing the water, sanitary sewer and drainage system, and the District may issue additional bonds which may be voted hereafter. The District may also issue refunding bonds. The District currently has \$11,715,000 principal amount of unlimited tax bonds authorized but unissued for refunding purposes. See “THE BONDS—Issuance of Additional Debt.” The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities must be approved by the Commission.

Dependence on Principal Taxpayers

The ten principal taxpayers represent \$155,399,393 or approximately 27.05% of the certified portion of the 2020 Certified Taxable Assessed Valuation of \$565,958,363 which represents ownership as of January 1, 2020. If a principal taxpayer were to default in the payment of taxes in an amount which exceeds the balance in the District’s Debt Service Fund, the ability of the District to make timely payment of debt service on the Bonds would be dependent on the ability of the District to enforce and liquidate its tax lien, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in the District being forced to set an excessive tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its Debt Service Fund. See “Tax Collections Limitations and Foreclosure Remedies” in this section, “TAX PROCEDURES—Levy and Collection of Taxes.”

Tax Collection Limitations

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

Registered Owners' Remedies and Bankruptcy Limitations

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

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

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

A district may not be forced into bankruptcy involuntarily.

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.

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 developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

The HGB Area is currently designated as a "serious" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2021. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB Area is currently designated as a "marginal" nonattainment area under the 2015 Ozone Standard, 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 and the EPA's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a municipal utility district's provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

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

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

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

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

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

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

Continuing Compliance with Certain Covenants

The Bond Resolution contains covenants by the District intended to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Resolution on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

Marketability

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

Changes in Tax Legislation

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The Initial Purchaser has entered into an agreement with Build America Mutual Assurance Company (“BAM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

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

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

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

LEGAL MATTERS

Legal Proceedings

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

Bond Counsel has reviewed the information appearing in this Official Statement under “THE BONDS,” “THE DISTRICT—General,” “TAX PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine if such information, insofar as it relates to matters of law, is true and correct, and whether such information fairly summarizes the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

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

No Material Adverse Change

The obligations of the Initial Purchaser 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 Preliminary Official Statement.

No-Litigation Certificate

The District will furnish the Initial Purchaser 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 there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

TAX MATTERS

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

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

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

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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. (Because original issue discount is treated as interest for deferral income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to an original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial public offering price of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.

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

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

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

Qualified Tax-Exempt Obligations

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

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2021 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2021.

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") bearing the interest rates shown on the cover page hereof, at a price of 98.4920% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 1.359006% as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed at any time by the Initial Purchaser 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 Initial Purchaser may over-allot or effect transactions that stabilize or maintain the market prices of the Bonds at levels above those that 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 difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold, or traded in the secondary market.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; 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.

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign its municipal bond rating of "AA" (stable outlook) to 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 Build America Mutual Assurance Company. S&P has assigned an underlying credit rating of "A" to the Bonds without regard to credit enhancement. An explanation of the rating may be obtained from S&P.

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this Official Statement.

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$485.4 million, \$160.7 million and \$324.7 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM’s most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM’s website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

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

Additional Information Available from BAM

Credit Insights Videos: For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at www.buildamerica.com/videos. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles: Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at www.buildamerica.com/credit-profiles. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers: The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

Consultants

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

Engineer: The information contained in this Official Statement relating to engineering matters and to the description of the System and in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by LJA Engineering, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

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

Auditor: The District's financial statements for the fiscal year ending December 31, 2019 were audited by McCall Gibson Swedlund Barfoot, PLLC, Certified Public Accountants. See APPENDIX A for a copy of the District's audited financial statements for the fiscal year ended December 31, 2019.

Bookkeeper: The information related to the “unaudited” summary of the District's General Operating Fund as it appears in “WATER AND SEWER OPERATIONS” has been provided by Municipal Accounts & Consulting, L.P. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the District's continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds as required by the exemption. As required by the exemption, in the Bond Resolution, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) System.

Annual Reports

The District will provide certain financial information and operating data which is customarily prepared by the District and is publicly available, annually to the MSRB through EMMA. The financial information and operating data which will be provided with respect to the District is found in APPENDIX A (Financial Statements of the District and supplemental schedules). The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order 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 December 31. Accordingly, it must provide updated information by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

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

Availability of Information from MSRB

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 120, as of the date shown on the cover page.

/s/ Gary Gassmann _____
President, Board of Directors
Harris County Municipal Utility District No. 120

ATTEST:

/s/ William J. Hammer _____
Secretary, Board of Directors
Harris County Municipal Utility District No. 120

AERIAL PHOTOGRAPH
(Approximate boundaries of the District as of November 2020)

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT No. 120**



SR-6



PHOTOGRAPHS OF THE DISTRICT
(Taken November 2020)













APPENDIX A

District Audited Financial Statements for the fiscal year ended December 31, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2019

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McCALL GIBSON SWEDLUND BARFOOT PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 120
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 120 (the "District"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

April 9, 2020

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Management's discussion and analysis of Harris County Municipal Utility District No. 120's (the "District") financial performance provides an overview of the District's financial activities for the year ended December 31, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The 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 deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

FUND FINANCIAL STATEMENTS

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found in this report.

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15,925,683 as of December 31, 2019. A portion of the District's net position reflects its net investment in capital assets (land, construction in progress, general, recreational facilities and water, wastewater and drainage facilities less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of the Statement of Net Position as of December 31, 2019, and December 31, 2018:

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 10,641,075	\$ 9,906,479	\$ 734,596
Capital Assets (Net of Accumulated Depreciation)	<u>16,367,829</u>	<u>16,540,063</u>	<u>(172,234)</u>
Total Assets	<u>\$ 27,008,904</u>	<u>\$ 26,446,542</u>	<u>\$ 562,362</u>
Deferred Outflows of Resources	<u>\$ 182,087</u>	<u>\$ 209,558</u>	<u>\$ (27,471)</u>
Bonds Payable	\$ 8,047,032	\$ 9,189,935	\$ 1,142,903
Other Liabilities	<u>746,649</u>	<u>650,043</u>	<u>(96,606)</u>
Total Liabilities	<u>\$ 8,793,681</u>	<u>\$ 9,839,978</u>	<u>\$ 1,046,297</u>
Deferred Inflows of Resources	<u>\$ 2,471,627</u>	<u>\$ 2,396,109</u>	<u>\$ (75,518)</u>
Net Position:			
Net Investment in Capital Assets	\$ 8,502,884	\$ 7,559,686	\$ 943,198
Restricted	564,719	581,333	(16,614)
Unrestricted	<u>6,858,080</u>	<u>6,278,994</u>	<u>579,086</u>
Total Net Position	<u>\$ 15,925,683</u>	<u>\$ 14,420,013</u>	<u>\$ 1,505,670</u>

The following table provides a comparison of the District's operations for the years ending December 31, 2019, and December 31, 2018. The District's net position increased by \$1,505,670.

	<u>Summary of Changes in the Statement of Activities</u>		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,365,743	\$ 2,390,506	\$ (24,763)
Sales Tax Revenues	306,214	320,959	(14,745)
Charges for Services	2,742,203	2,803,040	(60,837)
Other Revenues	<u>220,372</u>	<u>180,954</u>	<u>39,418</u>
Total Revenues	<u>\$ 5,634,532</u>	<u>\$ 5,695,459</u>	<u>\$ (60,927)</u>
Expenses for Services	<u>4,128,862</u>	<u>4,050,203</u>	<u>(78,659)</u>
Change in Net Position	\$ 1,505,670	\$ 1,645,256	\$ (139,586)
Net Position, Beginning of Year	<u>14,420,013</u>	<u>12,774,757</u>	<u>1,645,256</u>
Net Position, End of Year	<u>\$ 15,925,683</u>	<u>\$ 14,420,013</u>	<u>\$ 1,505,670</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2019, were \$7,473,007, an increase of \$556,803 from the prior year.

The General Fund fund balance increased by \$580,467. This increase was primarily due to service revenues, property tax revenues and sales tax revenues exceeding operating costs, administrative expenditures and capital outlay.

The Debt Service Fund fund balance decreased by \$23,664. This decrease was primarily due to the structure of the District's outstanding debt.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the General Fund. Actual revenues were \$142,744 more than budgeted revenues primarily due to greater than anticipated investment revenues and water authority fees. Actual expenditures were \$462,232 less than budgeted expenditures primarily due to lower than anticipated capital and purchased wastewater costs offset by higher than anticipated water authority fees.

CAPITAL ASSETS

Capital assets as of December 31, 2019, total \$16,367,829 (net of accumulated depreciation) and include land, construction in progress, general, and recreational facilities as well as the water, wastewater and drainage systems. Significant capital asset activity during the current year included water plant no. 2 recoating, water plant no. 1 well motor replacement, lift station project and sanitary sewer rehabilitation phase 1.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land	\$ 324,172	\$ 324,172	\$
Construction in Progress	129,271	62,129	67,142
Capital Assets, Net of Accumulated Depreciation:			
General	13,844	16,335	(2,491)
Recreational Facilities	174,659	196,637	(21,978)
Water System	3,874,723	3,823,224	51,499
Wastewater System	7,915,579	8,003,869	(88,290)
Drainage System	3,935,581	4,113,696	(178,115)
Total Net Capital Assets	\$ 16,367,829	\$ 16,540,062	\$ (172,233)

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

LONG-TERM DEBT ACTIVITY

As of December 31, 2019, the District had total bond debt payable of \$7,860,000. The changes in the debt position of the District during the fiscal year ended December 31, 2019, are summarized as follows:

Bond Debt Payable, January 1, 2019	\$ 8,965,000
Less: Bond Principal Paid	<u>1,105,000</u>
Bond Debt Payable, December 31, 2019	<u><u>\$ 7,860,000</u></u>

The District’s bonds carry an underlying rating of “A” from Standard & Poor’s. The Series 2012 bonds and Series 2016 refunding bonds carry insured ratings of “AA” by virtue of bond insurance issued by Assured Guaranty Municipal Corp and Build America Mutual Assurance Company, respectively. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The above ratings are as of December 31, 2019 and reflect all rating changes of the bond insurers through the fiscal year end.

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 Harris County Municipal Utility District No. 120, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, TX 77027.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2019

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 307,164	\$ 1,109,956
Investments	5,633,136	564,074
Receivables:		
Property Taxes	648,992	831,865
Penalty and Interest on Delinquent Taxes		
Service Accounts	392,321	
Other	4,675	
Due from Other Funds	475,342	
Due from City of Houston	81,461	
Advance for Regional Wastewater Treatment		
Plant Operations	1,043,426	
Land		
Construction in Progress		
Capital Assets, Net of Accumulated Depreciation		
TOTAL ASSETS	\$ 8,586,517	\$ 2,505,895
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ - 0 -	\$ - 0 -
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 8,586,517	\$ 2,505,895

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 1,417,120	\$	\$ 1,417,120
6,197,210		6,197,210
1,480,857		1,480,857
	24,005	24,005
392,321		392,321
4,675		4,675
475,342	(475,342)	
81,461		81,461
1,043,426		1,043,426
	324,172	324,172
	129,271	129,271
	<u>15,914,386</u>	<u>15,914,386</u>
<u>\$ 11,092,412</u>	<u>\$ 15,916,492</u>	<u>\$ 27,008,904</u>
\$ - 0 -	\$ 182,087	\$ 182,087
<u>\$ 11,092,412</u>	<u>\$ 16,098,579</u>	<u>\$ 27,190,991</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2019

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 235,613	\$
Accrued Interest Payable		
Due to Other Funds		475,342
Security Deposits	406,395	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 642,008	\$ 475,342
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 1,097,870	\$ 1,404,185
FUND BALANCES		
Nonspendable:		
Operating Advances	\$ 1,043,426	\$
Restricted for Debt Service		626,368
Assigned for 2020 Budget	882,896	
Unassigned	4,920,317	
TOTAL FUND BALANCES	\$ 6,846,639	\$ 626,368
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 8,586,517	\$ 2,505,895
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.

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 235,613	\$	\$ 235,613
	104,641	104,641
475,342	(475,342)	
406,395		406,395
	1,125,000	1,125,000
	6,922,032	6,922,032
<u>\$ 1,117,350</u>	<u>\$ 7,676,331</u>	<u>\$ 8,793,681</u>
<u>\$ 2,502,055</u>	<u>\$ (30,428)</u>	<u>\$ 2,471,627</u>
\$ 1,043,426	\$ (1,043,426)	\$
626,368	(626,368)	
882,896	(882,896)	
<u>4,920,317</u>	<u>(4,920,317)</u>	<u></u>
<u>\$ 7,473,007</u>	<u>\$ (7,473,007)</u>	<u>\$ - 0 -</u>
<u>\$ 11,092,412</u>		
	\$ 8,502,884	\$ 8,502,884
	564,719	564,719
	<u>6,858,080</u>	<u>6,858,080</u>
	<u>\$ 15,925,683</u>	<u>\$ 15,925,683</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019**

Total Fund Balances - Governmental Funds	\$	7,473,007
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		16,367,829
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The difference between the net carrying amount of the refunded bonds and the reacquisition price is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.		182,087
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.		54,433
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (104,641)	
Bonds Payable	<u>(8,047,032)</u>	<u>(8,151,673)</u>

Total Net Position - Governmental Activities	\$	<u>15,925,683</u>
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The accompanying notes to the financial statements are an integral part of this report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2019

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 987,411	\$ 1,383,010
Water Service	683,749	
Wastewater Service	736,823	
Water Authority Fees	1,201,707	
Penalty and Interest	70,194	24,327
Sales Tax Revenues	306,214	
Tap Connection and Inspection Fees	26,505	
Investment and Miscellaneous Revenues	187,876	32,496
TOTAL REVENUES	\$ 4,200,479	\$ 1,439,833
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 238,210	\$ 8,606
Contracted Services	201,273	59,974
Purchased Wastewater Service	519,827	
Utilities	101,228	
Water Authority Assessments	1,230,994	
Repairs and Maintenance	566,380	
Depreciation		
Other	259,786	11,304
Capital Outlay	502,314	
Debt Service:		
Bond Principal		1,105,000
Bond Interest		278,613
TOTAL EXPENDITURES/EXPENSES	\$ 3,620,012	\$ 1,463,497
NET CHANGE IN FUND BALANCES	\$ 580,467	\$ (23,664)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2019	6,266,172	650,032
FUND BALANCES/NET POSITION - DECEMBER 31, 2019	\$ 6,846,639	\$ 626,368

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 2,370,421	\$ (4,678)	\$ 2,365,743
683,749		683,749
736,823		736,823
1,201,707		1,201,707
94,521	(1,102)	93,419
306,214		306,214
26,505		26,505
220,372		220,372
<u>\$ 5,640,312</u>	<u>\$ (5,780)</u>	<u>\$ 5,634,532</u>
\$ 246,816	\$ 61,892	\$ 308,708
261,247		261,247
519,827	(129,271)	390,556
101,228		101,228
1,230,994		1,230,994
566,380		566,380
	741,926	741,926
271,090		271,090
502,314	(502,314)	
1,105,000	(1,105,000)	
278,613	(21,880)	256,733
<u>\$ 5,083,509</u>	<u>\$ (954,647)</u>	<u>\$ 4,128,862</u>
\$ 556,803	\$ (556,803)	\$
	1,505,670	1,505,670
<u>6,916,204</u>	<u>7,503,809</u>	<u>14,420,013</u>
<u>\$ 7,473,007</u>	<u>\$ 8,452,676</u>	<u>\$ 15,925,683</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balances - Governmental Funds	\$	556,803
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.		(4,678)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		(1,102)
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.		(741,926)
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.		569,693
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		1,105,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		<u>21,880</u>
Change in Net Position - Governmental Activities	\$	<u>1,505,670</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 120 of Harris County, Texas was created effective October 7, 1974, by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on November 20, 1974, and the first bonds were sold on July 14, 1977.

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. The GASB has established 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 for waste disposal with Chelford City Municipal Utility District (see Note 8).

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”).

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 funds financial statements. The District is viewed as a special- purpose government and has the option of combining these financial statements.

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 two governmental funds and considers each to be a major fund.

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

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

Basis of Accounting

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

Property taxes considered available by the District and included in revenue include 2018 tax levy collections during the period October 1, 2018 to December 31, 2019, and taxes collected from January 1, 2019, to December 31, 2019, for the 2017 and prior tax levies. The 2019 tax levy has been fully deferred to meet the operating costs of the 2020 fiscal year.

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 December 31, 2019, the District's Debt Service Fund owed the General Fund \$475,342 for maintenance tax collections.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include land, construction in progress, general, recreational facilities and water and wastewater system assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
General	30-45
Recreational Facilities	10-20
Water System	10-45
Wastewater System	10-45
Drainage System	10-45

Budgeting

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

Pensions

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 are classified using the following hierarchy:

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

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

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

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 assigned \$882,896 of the General Fund fund balance to cover a portion of the 2020 budget.

Unassigned: all other spendable amounts in the General Fund.

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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</u>	<u>Refunding Series 2012A</u>	<u>Refunding Series 2016</u>
Amount Outstanding – December 31, 2019	\$2,235,000	\$1,700,000	\$3,925,000
Interest Rates	2.50% - 3.50%	3.00% - 4.00%	2.00% - 4.00%
Maturity Dates – Serially Beginning/Ending	August 1, 2020/2027	August 1, 2020/2022	August 1, 2020/2027
Interest Payment Dates	February 1/ August 1	February 1/ August 1	February 1/ August 1
Callable Dates	August 1, 2020*	August 1, 2020*	August 1, 2023*

* Or any date thereafter at a price equal to the principal plus accrued interest to the date fixed for the redemption. The Series 2012 bonds maturing on August 1, 2022 are term bonds and are subject to mandatory sinking fund redemption.

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

	<u>January 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2019</u>
Bonds Payable	\$ 8,965,000	\$	\$ 1,105,000	\$ 7,860,000
Unamortized Discounts	(62,915)		(9,370)	(53,545)
Unamortized Premiums	287,850		47,273	240,577
Bonds Payable, Net	<u>\$ 9,189,935</u>	<u>\$ -0-</u>	<u>\$ 1,142,903</u>	<u>\$ 8,047,032</u>
			Amount Due Within One Year	\$ 1,125,000
			Amount Due After One Year	6,922,032
			Bonds Payable, Net	<u>\$ 8,047,032</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 3. LONG-TERM DEBT (Continued)

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

Fiscal Year	Principal	Interest	Total
2020	\$ 1,125,000	\$ 251,137	\$ 1,376,137
2021	1,150,000	222,138	1,372,138
2022	1,190,000	186,337	1,376,337
2023	990,000	149,488	1,139,488
2024	985,000	119,787	1,104,787
2025-2027	2,420,000	170,275	2,590,275
	<u>\$ 7,860,000</u>	<u>\$ 1,099,162</u>	<u>\$ 8,959,162</u>

As of December 31, 2019, the District had authorized but unissued bonds in the amount of \$6,560,000 for tax bonds and \$11,715,000 for refunding bonds. 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.

During the year ended December 31, 2019, the District levied an ad valorem debt service tax rate of \$0.255 per \$100 of assessed valuation which resulted in a tax levy of \$1,385,197 on the adjusted taxable valuation of \$543,214,716 for the 2019 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

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

NOTE 4. SIGNIFICANT BOND RESOLUTIONS 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 bond resolutions state that the District is required to provide continuing disclosure of certain general financial information and operating data to certain information depositories. 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 \$1,417,120 and the bank balance was \$1,505,628. The District was not exposed to custodial credit risk at year-end.

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

	Cash
GENERAL FUND	\$ 307,164
DEBT SERVICE FUND	1,109,956
TOTAL DEPOSITS	\$ 1,417,120

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

The District's Investment Policy is more restrictive than the Public Funds Investment Act and allows the District to only invest in the following investment types: (1) obligations of the United States or its agencies and instrumentalities, (2) certificates of deposit issued by a state or national bank domiciled in Texas, or a savings bank domiciled in Texas, or state or federal credit union domiciled in Texas that is guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Corporation or its successor; and secured by obligations that are authorized under the Public Funds Investment Act, and (3) TexPool and Texas CLASS investment pools, provided they comply with the Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures 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.

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

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 5,633,136	\$ 5,633,136
<u>DEBT SERVICE FUND</u>		
TexPool	564,074	564,074
TOTAL INVESTMENTS	\$ 6,197,210	\$ 6,197,210

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2019, the District's investment in TexPool was rated AAAM by Standard and Poor's. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Restrictions

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

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 is as follows:

	January 1, 2019	Increases	Decreases	December 31, 2019
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 324,172	\$	\$	\$ 324,172
Construction in Progress	<u>62,129</u>	<u>569,693</u>	<u>502,551</u>	<u>129,271</u>
Total Capital Assets Not Being Depreciated	<u>\$ 386,301</u>	<u>\$ 569,693</u>	<u>\$ 502,551</u>	<u>\$ 453,443</u>
Capital Assets Subject to Depreciation				
General	\$ 83,335	\$	\$	\$ 83,335
Recreational Facilities	226,839			226,839
Water System	7,567,275	272,709		7,839,984
Wastewater System	16,450,917	229,842		16,680,759
Drainage System	<u>7,993,263</u>			<u>7,993,263</u>
Total Capital Assets Subject to Depreciation	<u>\$ 32,321,629</u>	<u>\$ 502,551</u>	<u>\$ - 0 -</u>	<u>\$ 32,824,180</u>
Accumulated Depreciation				
General	\$ 67,000	\$ 2,491	\$	\$ 69,491
Recreational Facilities	30,202	21,978		52,180
Water System	3,744,051	221,210		3,965,261
Wastewater System	8,447,048	318,132		8,765,180
Drainage System	<u>3,879,567</u>	<u>178,115</u>		<u>4,057,682</u>
Total Accumulated Depreciation	<u>\$ 16,167,868</u>	<u>\$ 741,926</u>	<u>\$ - 0 -</u>	<u>\$ 16,909,794</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 16,153,761</u>	<u>\$ (239,375)</u>	<u>\$ - 0 -</u>	<u>\$ 15,914,386</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 16,540,062</u>	<u>\$ 330,318</u>	<u>\$ 502,551</u>	<u>\$ 16,367,829</u>

NOTE 7. MAINTENANCE TAX

On November 6, 2001, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.20 per \$100 of assessed valuation of taxable property within the District. During the year ended December 31, 2019, the District levied an ad valorem maintenance tax rate of \$0.20 per \$100 of assessed valuation, which resulted in a tax levy of \$1,086,430 on the adjusted taxable valuation of \$543,214,716 for the 2019 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 8. WASTEWATER JOINT VENTURE

On May 9, 1978, the District executed a contract with Chelford City Municipal Utility District (“Chelford City”) for the provision of sewage services to receive, transport, treat and dispose of all waste collected by the District. Chelford City was responsible for constructing the system and currently owns, operates and maintains the system; provided, however, that the District is considered beneficial owner to the extent of the District’s right to use and benefit from its reserved capacity therein.

Participants are billed monthly, based on \$1.50 per 1,000 gallons per day (“gpd”) capacity acquired in the plant, plus a pro rata share of budgeted costs in excess of this amount based on the number of equivalent connections. During the current fiscal year, the monthly per connection charge was \$13.50. As of September 30, of each year, any excess of revenues or expenditures are allocated to each participant based upon their pro rata share of total annual billings for the fiscal year then ended. The allocation is added to or deducted from each participant’s fund balance. The District’s advance for future operations, maintenance and capital improvements to the plant totaled \$1,043,426, and the District recorded current year expenditures of \$519,827 as its share of operating costs of the plant.

On September 11, 2006, the contract was amended to clarify the pro rata share of each participant and extend the term of the contract. The term of this contract is for a period of 40 years and shall automatically be extended for successive 40-year periods until all of the participants have been annexed and dissolved by the City of Houston, Texas. The City of Houston is not a party to the September 11, 2006 contract.

Effective January 1, 2005, the District sold to Chelford City 118,050 gpd of its excess capacity, at a cost of \$548,933 plus interest. The current capacity of the plant is 11,000,000 gallons per day. The participating entities and their respective pro rata share of capacity in the Regional Wastewater Treatment Plant are:

Participants	Percent
Chelford City Municipal Utility District	7.86%
Chelford One Municipal Utility District	4.85
City of Houston (formerly Harris County Municipal Utility District No. 98)	9.88
Harris County Municipal Utility District No. 120	27.37
Harris County Municipal Utility District No. 147	4.45
Mission Bend Municipal Utility District No. 1	9.47
Mission Bend Municipal Utility District No. 2	22.66
City of Houston (formerly West Houston Municipal Utility District)	13.39
Alief Church of the Nazarene	<u>0.07</u>
	<u>100.00%</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 8. WASTEWATER JOINT VENTURE (Continued)

Audited financial reports for the Regional Wastewater Treatment Plant can be obtained by contacting Chelford City’s attorney, Coats Rose, P.C. The following summary financial data of the Regional Wastewater Treatment Plant is presented for the fiscal year ended September 30, 2019:

	Joint Venture
Total Assets	\$ 5,011,515
Total Liabilities	280,306
Total Fund Balance	\$ 4,731,209
Total Revenues	\$ 3,516,222
Total Expenditures	2,687,067
Excess Revenues Over Expenditures	\$ 829,155
Other Financing Sources	
Contribution by Mission Bend MUD No. 2	\$ 142,704
Net Change in Fund Balance	\$ 971,859
Fund Balance - October 1, 2018	3,759,350
Fund Balance – September 30, 2019	\$ 4,731,209

NOTE 9. EMERGENCY WATER SUPPLY AGREEMENTS

On November 14, 1996, the District and Harris County Municipal Utility District No. 147 executed a new Emergency Water Supply Agreement. The supply of water is intended to be on an emergency basis as defined in the agreement. Payment for water delivered pursuant to this agreement shall be made in-kind. On April 10, 2003, the agreement was amended to provide for either payment in-kind or cash. The cash price will be \$0.50 per 1,000 gallons of water received, plus applicable regional water authority fees. On March 11, 2010, the agreement was amended, and the cash price was changed to \$0.75 per 1,000 gallons received, plus applicable regional water authority fees. On November 10, 2016, the agreement was amended to extend the contract through November 10, 2036.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 9. EMERGENCY WATER SUPPLY AGREEMENTS (Continued)

On February 14, 2002, the District and Mission Bend Municipal Utility District No. 2 executed an Emergency Water Interconnect Contract. During an emergency, the district experiencing the emergency may open the interconnecting valve and be supplied water by the other party subject to notification as required by the contract. Payment for water delivered is \$0.50 per thousand gallons of water plus the actual fees charged by the West Harris County Regional Water Authority. The agreement will be in effect for 120 years.

On February 14, 2002, the District and Chelford One Municipal Utility District executed an Emergency Water Interconnect contract. During an emergency, the district experiencing the emergency may open the valves at the points of connection and be supplied water by the other party subject to notification as required by the contract. Payment for water delivered is \$0.50 per thousand gallons plus the actual fee charged per thousand gallons by the West Harris County Regional Water Authority for the average daily usage for the day water was received. The term of this agreement is 50 years.

NOTE 10. OUT-OF-DISTRICT WATER AND SANITARY SEWER SERVICE AGREEMENT

On February 12, 2009, the District and Arya Samaj of Greater Houston, Inc. (“ASGH”) executed an Out-of-District Water and Sanitary Sewer Service Agreement. This agreement was amended on December 10, 2015. In accordance with the terms of the agreement, the District allocated ASGH a maximum of 1,890 gpd of water and 1,575 gpd for sanitary sewer. This is the equivalent of 10 single family residential connections.

ASGH was responsible for paying the District all design and construction costs necessary to connect to the District’s facilities. Additionally, ASGH is responsible for paying the inspection and tap fees in accordance with the District’s Rate Order, which are: (1) the tap fee of \$34,250 plus two times the District’s actual cost of installing the tap, meter and any necessary service lines and repairs affected by the installation; (2) the fees of all inspections per the rate in the District’s Rate Order times two; (3) the District’s costs related to the agreement and any easements or right of ways; and (4) all costs related to design and construction of the ASGH lines.

The agreement expires on December 31, 2021, and thereafter will automatically renew for successive one-year periods until terminated.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 11. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the West Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the “Act”), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Authority for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions.

The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. As of December 31, 2019, the fee was \$2.95 per 1,000 gallons of water pumped from each well. Effective January 1, 2020, the fees increased to \$3.20 per 1,000 gallons of water pumped from each well. The District recorded expenditures of \$1,230,994 during the current fiscal year.

NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT

Effective April 11, 2003, the District entered into a Strategic Partnership Agreement (“SPA”) with the City of Houston, Texas, which was amended twice by mutual agreement, in March 2005 and December 2007. In May 2013, the District and the City entered a Third Amended and Restated Strategic Partnership Agreement (“Restated SPA”). A portion of the restated SPA was later declared void because certain property was not available for limited purpose annexation. Under the Restated SPA, in conformity with Chapter 43 of Texas Local Government Code, the City has annexed certain property within the District for limited purposes. The District will continue to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District. The taxable property within the District is not liable for any present or future debts of the City, and current and future taxes levied by the City may not be levied on taxable property within the District. The District’s assets, liabilities, indebtedness, and obligations will remain the responsibilities of the District during the term of the Restated SPA and the City may not annex the District for full purposes during the term of the Restated SPA. The qualified voters of the District may vote in City elections pursuant to Local Government Code. The City is responsible for notifying the voters within the District.

The City imposes a Sales and Use Tax within the boundaries of the District under the Restated SPA on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under future amendments to Chapter 321 of the Tax Code. The City agreed to pay to the District an amount equal to one-half of the one percent of all Sales and Use Tax revenues collected and received by the City within the District. The City agreed to deliver to the District its share of the sales tax receipts within 30 days of the City receiving the funds

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT (Continued)

from the State Comptroller's office. During the current fiscal year, the District recorded sales tax rebate revenue of \$306,214, of which \$81,461 was recorded as receivable at the end of the year. The term of the Restated SPA is 30 years from the effective date of the original 2003 SPA.

NOTE 13. RISK MANAGEMENT

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

NOTE 14. PRIOR PERIOD ADJUSTMENT

The District increased its beginning net position to record its share of certain joint wastewater treatment plant capital assets. Beginning net position was increased by \$2,240,805, from \$12,179,208 to \$14,420,013.

NOTE 15. 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 are likely to 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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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 982,991	\$ 987,411	\$ 4,420
Water Service	724,500	683,749	(40,751)
Wastewater Service	726,000	736,823	10,823
Water Authority Fees	1,089,660	1,201,707	112,047
Penalty and Interest	68,183	70,194	2,011
Sales Tax Revenues	310,382	306,214	(4,168)
Tap Connection and Inspection Fees	30,046	26,505	(3,541)
Investment and Miscellaneous Revenues	<u>125,973</u>	<u>187,876</u>	<u>61,903</u>
TOTAL REVENUES	<u>\$ 4,057,735</u>	<u>\$ 4,200,479</u>	<u>\$ 142,744</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 243,780	\$ 238,210	\$ 5,570
Contracted Services	199,377	201,273	(1,896)
Purchased Wastewater Service	736,541	519,827	216,714
Utilities	118,676	101,228	17,448
Water Authority Assessments	1,123,950	1,230,994	(107,044)
Repairs and Maintenance	590,130	566,380	23,750
Other	287,790	259,786	28,004
Capital Outlay	<u>782,000</u>	<u>502,314</u>	<u>279,686</u>
TOTAL EXPENDITURES	<u>\$ 4,082,244</u>	<u>\$ 3,620,012</u>	<u>\$ 462,232</u>
NET CHANGE IN FUND BALANCE	\$ (24,509)	\$ 580,467	\$ 604,976
FUND BALANCE - JANUARY 1, 2019	<u>6,266,172</u>	<u>6,266,172</u>	<u> </u>
FUND BALANCE - DECEMBER 31, 2019	<u>\$ 6,241,663</u>	<u>\$ 6,846,639</u>	<u>\$ 604,976</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

DECEMBER 31, 2019

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved December 12, 2019.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 16.00	8,000	N	\$0.85	8,001 to 10,000
				1.00	10,001 to 20,000
				2.00	20,001 to 30,000
				2.50	30,001 to 40,000
				3.00	40,001 and up

WASTEWATER: \$ 14.00 Y

SURCHARGE:

Water Authority Fees
 \$ 3.39 per 1,000 gallons (through 12/31/19)
 \$ 3.68 per 1,000 gallons (effective 1/1/20)

District employs winter averaging for wastewater usage? Yes No

Total monthly charges per 10,000 gallons usage: Water: \$17.70 Wastewater: \$14.00 Surcharge: \$33.90

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2019

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	2,502	2,467	x 1.0	2,467
1"	47	44	x 2.5	110
1½"	25	25	x 5.0	125
2"	53	52	x 8.0	416
3"	1	1	x 15.0	15
4"	9	9	x 25.0	225
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>2,637</u>	<u>2,598</u>		<u>3,358</u>
Total Wastewater Connections	<u>2,564</u>	<u>2,529</u>	x 1.0	<u>2,529</u>

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

Gallons pumped into system:	415,212,000	Water Accountability Ratio: 86.6% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	359,367,000	
Gallons Purchased:	1,800,000	From: Harris County Municipal Utility District No. 147
Gallons Sold:	1,808,000	To: Harris County Municipal Utility District No. 147

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2019

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2019

PROFESSIONAL FEES:	
Auditing	\$ 16,750
Engineering	100,423
Legal	<u>121,037</u>
TOTAL PROFESSIONAL FEES	<u>\$ 238,210</u>
PURCHASED SERVICES FOR RESALE	<u>\$ 519,827</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 32,279
Operations and Billing	160,744
Sales Tax, Arbitrage, and EVO Reporting	<u>8,250</u>
TOTAL CONTRACTED SERVICES	<u>\$ 201,273</u>
UTILITIES:	
Electricity	\$ 93,726
Telephone	<u>7,502</u>
TOTAL UTILITIES	<u>\$ 101,228</u>
REPAIRS AND MAINTENANCE	<u>\$ 566,380</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes and Administration	\$ 40,527
Insurance	12,179
Office Supplies and Postage	25,726
Travel, Meetings, Website, and Other	<u>38,837</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 117,269</u>
CAPITAL OUTLAY	<u>\$ 502,314</u>
CONTRIBUTION TO GREENBELT ASSOCIATION	<u>\$ 40,000</u>
OTHER EXPENDITURES:	
Chemicals	\$ 45,573
Laboratory Fees	11,674
Permit Fees	10,138
Inspection Fees, Disconnection, Transfer Fees	28,233
Water Authority Assessments	1,230,994
Regulatory Assessment	<u>6,899</u>
TOTAL OTHER EXPENDITURES	<u>\$ 1,333,511</u>
TOTAL EXPENDITURES	<u><u>\$ 3,620,012</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
INVESTMENTS
DECEMBER 31, 2019

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 3,689,059	\$
TexPool	XXXX0006	Varies	Daily	<u>1,944,077</u>	<u> </u>
TOTAL GENERAL FUND				<u>\$ 5,633,136</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0004	Varies	Daily	\$ 266,733	\$
TexPool	XXXX0007	Varies	Daily	<u>297,341</u>	<u> </u>
TOTAL DEBT SERVICE FUND				<u>\$ 564,074</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u>\$ 6,197,210</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2019

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JANUARY 1, 2019	\$	810,748		\$ 1,139,380
Adjustments to Beginning				
Balance		<u>(12,349)</u>	\$ 798,399	<u>(18,018)</u> \$ 1,121,362
Original 2019 Tax Levy	\$	959,776		\$ 1,223,714
Adjustment to 2019 Tax Levy		<u>126,654</u>	<u>1,086,430</u>	<u>161,483</u> <u>1,385,197</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 1,884,829		\$ 2,506,559
 TAX COLLECTIONS:				
Prior Years	\$	786,958		\$ 1,102,375
Current Year		<u>448,879</u>	<u>1,235,837</u>	<u>572,319</u> <u>1,674,694</u>
 TAXES RECEIVABLE -				
DECEMBER 31, 2019		<u>\$ 648,992</u>		<u>\$ 831,865</u>
 TAXES RECEIVABLE BY				
YEAR:				
2019		\$ 637,551		\$ 812,878
2018		4,820		6,747
2017		2,914		4,371
2016		1,161		1,857
2015		625		1,188
2014		339		746
2013		288		692
2012		287		717
2011		303		803
2010 and prior		<u>704</u>		<u>1,866</u>
TOTAL		<u>\$ 648,992</u>		<u>\$ 831,865</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018	2017	2016
PROPERTY VALUATIONS:				
Land	\$ 137,696,559	\$ 125,518,504	\$ 120,651,867	\$ 114,967,288
Improvements	481,285,548	443,043,994	426,299,019	395,932,478
Personal Property	15,963,059	16,949,509	16,380,305	15,175,407
Exemptions	(91,730,450)	(85,322,580)	(80,844,907)	(78,707,207)
TOTAL PROPERTY VALUATIONS	\$ 543,214,716	\$ 500,189,427	\$ 482,486,284	\$ 447,367,966
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.255	\$ 0.28	\$ 0.30	\$ 0.32
Maintenance	0.200	0.20	0.20	0.20
TOTAL TAX RATES PER \$100 VALUATION	\$ 0.455	\$ 0.48	\$ 0.50	\$ 0.52
ADJUSTED TAX LEVY*	\$ 2,471,627	\$ 2,396,109	\$ 2,412,432	\$ 2,326,313
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	41.32 %	99.52 %	99.70 %	99.87 %

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

Maintenance Tax – Maximum tax rate of \$0.20 per \$100 of assessed valuation approved by voters on November 6, 2001.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2019

S E R I E S - 2 0 1 2			
Due During Fiscal Years Ending December 31	Principal Due August 1	Interest Due February 1/ August 1	Total
2020	\$ 160,000	\$ 70,187	\$ 230,187
2021	150,000	66,188	216,188
2022	175,000	61,687	236,687
2023	350,000	56,438	406,438
2024	350,000	45,937	395,937
2025	350,000	35,000	385,000
2026	350,000	23,625	373,625
2027	350,000	12,250	362,250
	\$ 2,235,000	\$ 371,312	\$ 2,606,312

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2019

REFUNDING SERIES - 2012 A			
Due During Fiscal Years Ending December 31	Principal Due August 1	Interest Due February 1/ August 1	Total
2020	\$ 570,000	\$ 62,300	\$ 632,300
2021	565,000	45,200	610,200
2022	565,000	22,600	587,600
2023			
2024			
2025			
2026			
2027			
	\$ 1,700,000	\$ 130,100	\$ 1,830,100

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2019

REFUNDING SERIES - 2016

<u>Due During Fiscal Years Ending December 31</u>	<u>Principal Due August 1</u>	<u>Interest Due February 1/ August 1</u>	<u>Total</u>
2020	\$ 395,000	\$ 118,650	\$ 513,650
2021	435,000	110,750	545,750
2022	450,000	102,050	552,050
2023	640,000	93,050	733,050
2024	635,000	73,850	708,850
2025	625,000	54,800	679,800
2026	375,000	29,800	404,800
2027	370,000	14,800	384,800
	<u>\$ 3,925,000</u>	<u>\$ 597,750</u>	<u>\$ 4,522,750</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2019

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 1,125,000	\$ 251,137	\$ 1,376,137
2021	1,150,000	222,138	1,372,138
2022	1,190,000	186,337	1,376,337
2023	990,000	149,488	1,139,488
2024	985,000	119,787	1,104,787
2025	975,000	89,800	1,064,800
2026	725,000	53,425	778,425
2027	720,000	27,050	747,050
	<u>\$ 7,860,000</u>	<u>\$ 1,099,162</u>	<u>\$ 8,959,162</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2019

Description	Original Bonds Issued	Bonds Outstanding January 1, 2019
Harris County Municipal Utility District No. 120 Unlimited Tax Bonds - Series 2009	\$ 4,025,000	\$ 250,000
Harris County Municipal Utility District No. 120 Unlimited Tax Bonds - Series 2012	2,985,000	2,385,000
Harris County Municipal Utility District No. 120 Unlimited Tax Refunding Bonds - Series 2012A	4,730,000	2,280,000
Harris County Municipal Utility District No. 120 Unlimited Tax Refunding Bonds - Series 2016	<u>4,300,000</u>	<u>4,050,000</u>
TOTAL	<u>\$ 16,040,000</u>	<u>\$ 8,965,000</u>

Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 31,710,000	\$ 15,000,000
Amount Issued	<u>25,150,000</u>	<u>3,285,000</u>
Remaining to be Issued	<u>\$ 6,560,000</u>	<u>\$ 11,715,000</u>

Debt Service Fund cash and investment balances as of December 31, 2019: \$ 1,674,030

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 1,119,895

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 December 31, 2019</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 250,000	\$ 9,625	\$ -0-	Wells Fargo Bank N.A. Dallas, TX
	150,000	73,938	2,235,000	Wells Fargo Bank N.A. Dallas, TX
	580,000	73,900	1,700,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	125,000	121,150	3,925,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 1,105,000</u>	<u>\$ 278,613</u>	<u>\$ 7,860,000</u>	

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 987,411	\$ 956,042	\$ 885,858
Water Service	683,749	723,817	705,223
Wastewater Service	736,823	731,874	731,426
Water Authority Fees	1,201,707	1,121,510	1,020,165
Penalty and Interest	70,194	52,536	48,591
Sales Tax Revenues	306,214	320,959	295,622
Tap Connection and Inspection Fees	26,505	145,735	78,143
Investment and Miscellaneous Revenues	187,876	159,907	65,382
TOTAL REVENUES	\$ 4,200,479	\$ 4,212,380	\$ 3,830,410
EXPENDITURES			
Professional Fees	\$ 238,210	\$ 207,305	\$ 224,910
Purchased and Contracted Services	721,100	853,472	932,655
Utilities	101,228	114,382	116,362
Water Authority Assessments	1,230,994	1,028,408	924,588
Repairs and Maintenance	566,380	538,759	448,418
Other	259,786	277,455	265,929
Capital Outlay	502,314	280,608	560,661
TOTAL EXPENDITURES	\$ 3,620,012	\$ 3,300,389	\$ 3,473,523
NET CHANGE IN FUND BALANCE	\$ 580,467	\$ 911,991	\$ 356,887
BEGINNING FUND BALANCE	6,266,172	5,354,181	4,997,294
ENDING FUND BALANCE	\$ 6,846,639	\$ 6,266,172	\$ 5,354,181

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 813,031	\$ 739,194	23.5 %	22.7 %	23.2 %	21.8 %	21.0 %
729,070	735,997	16.3	17.2	18.4	19.7	21.0
721,416	719,806	17.5	17.4	19.1	19.4	20.5
901,033	818,376	28.6	26.6	26.6	24.3	23.3
43,416	51,469	1.7	1.2	1.3	1.2	1.5
295,388	289,067	7.3	7.6	7.7	8.0	8.2
181,880	135,637	0.6	3.5	2.0	4.9	3.9
24,835	21,040	4.5	3.8	1.7	0.7	0.6
<u>\$ 3,710,069</u>	<u>\$ 3,510,586</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 247,566	\$ 227,959	5.7 %	4.9 %	5.9 %	6.7 %	6.5 %
671,849	900,133	17.2	20.3	24.3	18.1	25.6
128,091	109,109	2.4	2.7	3.0	3.5	3.1
864,270	773,371	29.3	24.4	24.1	23.3	22.0
433,795	466,002	13.5	12.8	11.7	11.7	13.3
327,098	288,634	6.2	6.6	6.9	8.8	8.2
175,582	479,025	12.0	6.7	14.6	4.7	13.6
<u>\$ 2,848,251</u>	<u>\$ 3,244,233</u>	<u>86.3 %</u>	<u>78.4 %</u>	<u>90.5 %</u>	<u>76.8 %</u>	<u>92.3 %</u>
\$ 861,818	\$ 266,353	<u>13.7 %</u>	<u>21.6 %</u>	<u>9.5 %</u>	<u>23.2 %</u>	<u>7.7 %</u>
<u>4,135,476</u>	<u>3,869,123</u>					
<u>\$ 4,997,294</u>	<u>\$ 4,135,476</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 1,383,010	\$ 1,434,901	\$ 1,424,875
Penalty and Interest	24,327	26,461	34,445
Investment and Miscellaneous Revenues	32,496	21,047	9,561
TOTAL REVENUES	\$ 1,439,833	\$ 1,482,409	\$ 1,468,881
EXPENDITURES			
Tax Collection Expenditures	\$ 77,084	\$ 72,401	\$ 75,005
Debt Service Principal	1,105,000	1,095,000	1,080,000
Debt Service Interest and Fees	281,413	307,500	333,050
Bond Issuance Costs			
TOTAL EXPENDITURES	\$ 1,463,497	\$ 1,474,901	\$ 1,488,055
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (23,664)	\$ 7,508	\$ (19,174)
OTHER FINANCING SOURCES (USES)			
Proceeds From Sale of Refunding Bonds	\$	\$	\$
Transfer to Refunded Bond Escrow Agent			
Bond Premium			
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ (23,664)	\$ 7,508	\$ (19,174)
BEGINNING FUND BALANCE	650,032	642,524	661,698
ENDING FUND BALANCE	\$ 626,368	\$ 650,032	\$ 642,524
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,598	2,595	2,592
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,529	2,522	2,515

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 1,545,438	\$ 1,630,422	96.0 %	96.8 %	97.0 %	98.7 %	98.7 %
15,527	19,023	1.7	1.8	2.3	1.0	1.2
4,160	1,114	2.3	1.4	0.7	0.3	0.1
<u>\$ 1,565,125</u>	<u>\$ 1,650,559</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 66,856	\$ 67,157	5.4 %	4.9 %	5.1 %	4.3 %	4.1 %
940,000	1,050,000	76.7	73.9	73.5	60.1	63.6
357,537	453,100	19.5	20.7	22.7	22.8	27.5
159,441					10.2	
<u>\$ 1,523,834</u>	<u>\$ 1,570,257</u>	<u>101.6 %</u>	<u>99.5 %</u>	<u>101.3 %</u>	<u>97.4 %</u>	<u>95.2 %</u>
\$ 41,291	\$ 80,302	<u>(1.6) %</u>	<u>0.5 %</u>	<u>(1.3) %</u>	<u>2.6 %</u>	<u>4.8 %</u>
\$ 4,300,000	\$					
(4,587,172)						
286,602						
<u>\$ (570)</u>	<u>\$ - 0 -</u>					
\$ 40,721	\$ 80,302					
620,977	540,675					
<u>\$ 661,698</u>	<u>\$ 620,977</u>					
2,585	2,558					
<u>2,489</u>	<u>2,491</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2019**

District Mailing Address - Harris County Municipal Utility District No. 120
c/o Allen Boone Humphries Robinson LLP
3200 Southwest Freeway, Suite 2600
Houston, TX 77027

District Telephone Number - (713) 860-6400

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended December 31, 2019	Expense Reimbursements for the year ended December 31, 2019	Title
Gary Gassmann	05/18 05/22 (Elected)	\$ 7,200	\$ 4,765	President/ Treasurer/ Investment Officer
Frances Browning	05/18 05/22 (Elected)	\$ 7,200	\$ 3,718	Vice President
Tracy Jones	10/17 05/20 (Appointed)	\$ 7,200	\$ 1,236	Assistant Vice President
William Hammer	05/16 05/20 (Elected)	\$ 7,200	\$ 4,854	Secretary
Sylvia Marinez	05/16 05/20 (Elected)	\$ 7,200	\$ 4,735	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 10, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on August 9, 2001. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 120
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2019

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2019</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	07/27/03	\$ 124,872	General Counsel
McCall Gibson Swedlund Barfoot PLLC	09/11/97	\$ 16,750	Auditor
Municipal Accounts & Consulting, L.P.	05/10/18	\$ 35,871	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/14/96	\$ 9,093	Delinquent Tax Attorney
LJA Engineering	09/24/09	\$ 137,692	Engineer
Masterson Advisors, LLC	05/10/18	\$ -0-	Financial Advisor
Environmental Development Partners LLC	09/24/09	\$ 675,914	Operator
Tax Tech, Inc.	01/10/08	\$ 44,161	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN