

OFFICIAL STATEMENT DATED JULY 29, 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 ARE NOT DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

NEW ISSUE – Book-Entry-Only

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

CINCO SOUTHWEST MUNICIPAL UTILITY DISTRICT NO. 1 *(A political subdivision of the State of Texas located within Fort Bend County)*

\$19,205,000
CONTRACT REVENUE REFUNDING BONDS
SERIES 2021

\$1,835,000
CONTRACT REVENUE ROAD REFUNDING BONDS
SERIES 2021A

The \$19,205,000 Contract Revenue Refunding Bonds, Series 2021 (the "Series 2021 Refunding Bonds") and the \$1,835,000 Contract Revenue Road Refunding Bonds, Series 2021A (the "Series 2021A Road Refunding Bonds" and collectively with the Series 2021A Refunding Bonds, referred to herein as the "Bonds") are obligations solely of Cinco Southwest Municipal Utility District No. 1 (the "Master District" or the "District") payable solely from and to the extent of payments required to be made to the Trustee (as herein defined) by all utility districts within the Master District Service Area (the "Participants") from proceeds of an unlimited annual ad valorem tax levied by each Participant or from other revenues available to such Participant (the "Contract Payments"). Payment of Contract Payments by Participants and use of such proceeds by the District to pay debt service on the Bonds is governed by the Second Amended Contract for Financing, Operation, and Maintenance of Regional Water, Sanitary Sewer, Storm Sewer, Park, Road and Other Facilities (the "Master District Contract") as described more fully herein under "MASTER DISTRICT CONTRACT." The Bonds are obligations of the Master District and are not obligations of the State of Texas, Fort Bend County, the City of Houston, any of the Participants except the Master District, or any entity other than the Master District.

Dated: September 1, 2021

Due: December 1, as shown below

Interest Accrual Date: Date of Delivery

The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. Principal of the Bonds will be payable upon presentation of the Bonds at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent/Registrar") in Houston, Texas. Interest on the Bonds accrues from the date of initial delivery (the "Date of Delivery") (expected to be September 3, 2021), and is payable December 1, 2021, and each June 1 and December 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 initially registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners 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/Registrar 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.

See "MATURITY SCHEDULES" on the inside cover

The Bonds, when issued, will constitute valid and legally binding special obligations of the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. Bond purchasers are encouraged to read this OFFICIAL STATEMENT prior to making an investment decision, particularly the section captioned "INVESTMENT CONSIDERATIONS." The proceeds of the Bonds will be applied to refund certain outstanding bonds of the District and to pay certain costs in connection with the issuance of the Bonds in order to achieve net present values savings. See "PLAN OF FINANCING."

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain other legal matters will be passed upon, on behalf of the Underwriter, by McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about September 3, 2021, in Houston, Texas.

SAMCO Capital

MATURITY SCHEDULES

\$19,205,000

CONTRACT REVENUE REFUNDING BONDS, SERIES 2021

Principal Amount	Maturity (December 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(c)	Principal Amount	Maturity (December 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(c)
\$ 190,000	2021	17240F XR6	3.00 %	0.13 %	\$ 1,080,000	2030 (a)	17240F YA2	2.00 %	1.47 %
1,760,000	2022	17240F XS4	3.00	0.22	1,055,000	2031 (a)	17240F YB0	2.00	1.63
1,760,000	2023	17240F XT2	3.00	0.31	1,030,000	2032 (a)	17240F YC8	2.00	1.78
1,145,000	2024	17240F XU9	3.00	0.45	1,000,000	2033 (a)	17240F YD6	2.00	1.92
1,140,000	2025	17240F XV7	3.00	0.60	970,000	2034 (a)	17240F YE4	2.00	2.00
1,140,000	2026	17240F XW5	4.00	0.80	945,000	2035 (a)	17240F YF1	2.00	2.08
1,135,000	2027	17240F XX3	3.00	0.94	910,000	2036 (a)	17240F YG9	2.00	2.16
1,120,000	2028 (a)	17240F XY1	2.00	1.13	880,000	2037 (a)	17240F YH7	2.00	2.24
1,100,000	2029 (a)	17240F XZ8	2.00	1.22	845,000	2038 (a)	17240F YJ3	2.00	2.27

\$1,835,000

CONTRACT REVENUE ROAD REFUNDING BONDS, SERIES 2021A

Principal Amount	Maturity (December 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(c)	Principal Amount	Maturity (December 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(c)
\$ 15,000	2021	17240F YK0	3.00 %	0.13 %	\$ 95,000	2026	17240F YQ7	3.00 %	0.87 %
460,000	2022	17240F YL8	3.00	0.25	95,000	2027	17240F YR5	3.00	1.00
100,000	2023	17240F YM6	3.00	0.38	95,000	2028 (a)	17240F YS3	2.00	1.13
100,000	2024	17240F YN4	3.00	0.52	90,000	2029 (a)	17240F YT1	2.00	1.22
95,000	2025	17240F YP9	3.00	0.67					

\$260,000 Term Bonds due December 1, 2032 (a), 17240F YW4 (b), 2.00% Interest Rate, 1.78% Yield (c)

\$230,000 Term Bonds due December 1, 2035 (a), 17240F YZ7 (b), 2.00% Interest Rate, 2.08% Yield (c)

\$200,000 Term Bonds due December 1, 2038 (a), 17240F ZC7 (b), 2.00% Interest Rate, 2.27% Yield (c)

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- (a) Bonds maturing on or after December 1, 2028, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on December 1, 2027, 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. The Series 2021A Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (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 Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.

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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, contracts, audited financial statements, engineering and other related reports referenced or described in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027 for more information.

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 until the delivery of the Bonds to the Underwriter and thereafter only as described in "PREPARATION OF OFFICIAL STATEMENT—Updating the Official Statement." The District has undertaken no other reporting obligations to purchasers of the Bonds except as described herein under "CONTINUING DISCLOSURE OF INFORMATION."

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.

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

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 C—Specimen Municipal Bond Insurance Policy."

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Series 2021 Refunding Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District at a price of \$19,879,975.07 (representing the par amount of the Series 2021 Refunding Bonds of \$19,205,000.00, plus a net premium on the Series 2021 Refunding Bonds of \$800,591.85, less an Underwriter’s discount of \$125,616.78). The Underwriter’s obligation is to purchase all of the Series 2021 Refunding Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

The Series 2021A Road Refunding Bonds are being purchased by the Underwriter pursuant to a bond purchase agreement with the District at a price of \$1,880,105.44 (representing the par amount of the Series 2021A Road Refunding Bonds of \$1,835,000.000, plus a net premium on the Series 2021A Road Refunding Bonds of \$63,294.95, less an Underwriter’s discount of \$18,189.51). The Underwriter’s obligation is to purchase all of the Series 2021A Road Refunding Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

Prices and Marketability

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

The Master 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 United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Master District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

OFFICIAL STATEMENT SUMMARY

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

INFECTIOUS DISEASE OUTLOOK (COVID-19)

GeneralIn March 2020, the World Health Organization and the President of the United States In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus (“COVID-19”) to be a public health emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State of Texas (the “State”) because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

Over the ensuing year, COVID-19 negatively affected commerce, travel and businesses locally and globally, and negatively affected economic growth worldwide and within the State. Following the widespread release and distribution of various COVID-19 vaccines in 2021 and a decrease in active COVID-19 cases generally in the United States, state governments (including Texas) have started to lift business and social limitations associated with COVID-19. Beginning in March 2021, the Governor issued various executive orders, which, among other things, rescinded and superseded prior executive orders and provide that there are currently no COVID-19 related operating limits for any business or other establishment except in counties with an “area with high hospitalizations” where a county judge may impose COVID-19 related mitigation strategies. Fort Bend County is not currently an “area with high hospitalizations.” The Governor retains the right to impose additional restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this OFFICIAL STATEMENT.

With the decrease in the number of active COVID-19 cases and the easing or removal of associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19. The Service Area has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions. See “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19).”

THE MASTER DISTRICT

Description.....Cinco Southwest Municipal Utility District No. 1 (the “Master District” or the “District”) is a political subdivision of the State of Texas, created by an order of the Texas Commission on Environmental Quality (the “TCEQ”) on May 3, 2005, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District, as a Participant (as hereinafter defined), was created to provide water, sanitary sewer, storm sewer, park and road facilities to the approximate 112 acres of land within its boundaries. The District, as the Master District, serves as the provider of regional water, sanitary sewer, storm sewer, park, road and other facilities for an approximately 2,390 acre service area (the “Service Area”) comprised of the land within the District and three other municipal utility districts namely MUD 2, MUD 3 and MUD 4 (each as defined below) (collectively the “Participants”). See “THE PARTICIPANTS” and “THE SERVICE AREA.”

LocationThe Service Area is located approximately 25 miles west of the central downtown business district of the City of Houston, Texas in Fort Bend County. The Service Area lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. Access to the Service Area is provided via Interstate Highway 10 West and U.S. Highway 59 South to Texas State Highway 99 (the “Grand Parkway”), a limited access state highway, and the Westpark Toll Road. See “THE SERVICE AREA.”

Cinco SouthwestThe Service Area has been developed as an extension of the Cinco Ranch development, which covers approximately 5,300 adjacent acres and includes more than 10,000 single-family residential homes. See “CINCO RANCH DEVELOPMENT.”

Status of DevelopmentDevelopment in the Service Area is largely complete and consists of the residential development within Cinco Southwest Municipal Utility District No. 2 (“MUD 2”), Cinco Southwest Municipal Utility District No. 3 (“MUD 3”) and Cinco Southwest Municipal Utility District No. 4 (“MUD 4”). Homes within the Service Area range in value from approximately \$150,000 to over \$1,000,000. As of June 1, 2021, 5,209 lots were complete in the Service Area (1,800 lots in MUD 2, 1,719 lots in MUD 3 and 1,690 lots in MUD 4) on approximately 1,794 acres, with 5,193 active residential connections and 16 inactive residential connections. Commercial development within the Service Area consists of approximately 158 acres where the following has been constructed: five facilities for early childhood development/daycare facilities totaling approximately 87,000 square foot, Dental/Orthodontic/medical office building totaling approximately 8,000 square foot, CVS Pharmacy, Walgreens Pharmacy, McDonald’s, two Shell gas stations/convenience stores, Lowe’s Home Improvements, Kroger store and gas station, Academy Sports & Outdoors, Petco, Spec’s Wine & Spirits, Sonic Drive-In, Burger King, Pei Wei restaurant, Bank of America, Regions Bank, Blue Wave car wash, Cinco Auto2 Car Wash and Automotive, Goodyear Tire & Automotive repair, Pengu Swim school, Storit self-storage, Tiger Martial Arts, Willow Fork Fire Department, two facilities providing emergency/urgent care, Second Baptist church, Trinity Baptist church, and 11 commercial “strip” mixed retail facilities totaling approximately 207,000 square foot consisting of mixed retail, service, restaurants, etc. In addition, there are approximately 44 acres of amenities and recreational facilities; approximately 32 acres where three apartment communities with 667 units have been constructed; approximately 41 acres of public school sites where three elementary schools have been constructed; and approximately 321 acres that are not developable in the Service Area. See “THE SERVICE AREA—Land Use and Status of Development,” and “APPENDIX A.”

Recreational amenities within the Service Area include a 6,000 square foot recreation center and three facilities that include a pool, a children’s spray park, a meeting hall and a children’s garden. There is also an 8-acre central park connected to the main lake and the recreation center, a greenbelt trail system and numerous open spaces.

Master FacilitiesThe Master District, in its capacity as the provider of regional water, sanitary sewer, storm sewer, park, road and other facilities necessary to serve the Service Area (hereinafter collectively referred to as the “Master District Facilities”), has contracted with each of the Participants to construct and provide service from the Master District Facilities. See “INVESTMENT CONSIDERATIONS—Debt Burden on Property within the Participants” and “THE SYSTEM—Master District Facilities.”

The Master District owns and operates the Master District Facilities. Each Participant, including the District in its capacity as the provider of internal water distribution, wastewater collection and storm drainage, owns and operates the internal utilities within its boundaries. See “MASTER DISTRICT CONTRACT.”

Payment HistoryThe District has previously issued \$141,235,000 principal amount of Contract Revenue Bonds for water, sewer and drainage facilities in twelve series, \$21,425,000 principal amount of Contract Revenue Road Bonds for roads and related improvements in three series, \$72,785,000 principal amount of Contract Revenue Refunding Bonds in six series and \$11,970,000 principal amount of Contract Revenue Road Refunding Bonds in one series. The District currently has \$114,440,000 principal amount of Contract Revenue Bonds collectively outstanding (the “Outstanding Bonds”). The District has never defaulted on principal and interest payments on the Outstanding Bonds. See “FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Outstanding Bonds.”

THE BONDS

Description.....Cinco Southwest Municipal Utility District No. 1 Contract Revenue Refunding Bonds, Series 2021 in the aggregate principal amount of \$19,205,000 (the “Series 2021 Refunding Bonds”) and Contract Revenue Road Refunding Bonds, Series 2021A in the aggregate principal amount of \$1,835,000 (the “Series 2021A Road Refunding Bonds”). The Series 2021 Refunding Bonds and the Series 2021A Road Refunding Bonds are collectively referred to herein as the “Bonds.” Interest accrues from the Date of Delivery and is payable each December 1 and June 1, beginning December 1, 2021. The Series 2021 Refunding Bonds are being issued as serial bonds maturing on December 1 in each year 2021 through 2038, both inclusive, and the Series 2021A Road Refunding Bonds are being issued as serial bonds maturing on December 1 in each year 2021 through 2029, both inclusive, and as term bonds maturing on December 1 in each of the years 2032, 2035 and 2038 (the “Series 2021A Term Bonds”) in the amounts and paying interest at the rates shown on the inside cover page hereof. The Bonds will be issued in denominations of \$5,000 or any integral multiple of \$5,000. See “THE BONDS—Method of Payment of Principal and Interest.”

Book-Entry-OnlyThe Depository Trust Company (defined as “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.”

Redemption.....Bonds maturing on or after December 1, 2028, are subject to redemption at the option of the District prior to their maturity dates on December 1, 2027, 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. The Series 2021A Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”

Use of Proceeds.....Proceeds from the sale of the Bonds, together with lawfully available funds of the District, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund \$21,320,000 of the Outstanding Bonds in order to achieve net savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$93,120,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING” and “FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Outstanding Bonds.”

Authority for Issuance.....The Series 2021 Refunding Bonds are the seventh series of bonds issued for the purpose of refunding outstanding Water, Sewer and Drainage Contract Revenue Bonds (as defined herein). The Series 2021A Road Refunding Bonds are the second series of bonds issued for the purpose of refunding outstanding Road Contract Revenue Bonds. The Master District is authorized by the Master District Contract to issue additional Contract Revenue Bonds for the purpose of constructing and acquiring all Master District Facilities necessary to provide service to the entire Service Area or for the purpose of refunding outstanding Contract Revenue Bonds. Such additional bonds will be on parity with the Bonds.

The Bonds are issued pursuant to the Master District Contract, the Indenture (as defined herein), the terms and conditions of the Bond Resolutions (as defined herein), Article XVI, Section 59 of the Texas Constitution in the case of the Series 2021 Refunding Bonds; Article III, Section 52 of the Texas Constitution in the case of the Series 2021A Road Refunding Bonds, Chapter 8224, Texas Special District Local Laws Code, Chapters 49 and 54 of the Texas Water Code, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416 and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”

*Source and Security
of Payment*

Principal of and interest on the Bonds are payable from and secured by unconditional obligations of the Participants to make certain Contract Payments (as herein defined) pursuant to the Master District Contract. By execution of the Master District Contract, each Participant has agreed to pay a pro rata share of debt service on the Bonds based upon the gross certified assessed valuation of each Participant as a percentage of the total gross certified assessed valuation of the Service Area. Each Participant is obligated to make such payments from the proceeds of an annual unlimited ad valorem tax levied by such Participant for such purpose on land within its boundaries (the "Contract Tax"), from revenues derived from the operations of its water distribution and wastewater collection system, or from any other lawful source of income. No Participant is liable for the payments owed by any other Participant; however, failure of any Participant to make its Contract Payment could result in an increase in the Contract Payment amount paid by each of the other Participants. The Bonds are obligations of the Master District and are not obligations of the State of Texas, Fort Bend County, the City of Houston, any of the Participants except the Master District, or any entity other than the Master District. See "THE BONDS—Source and Security of Payment," "—Unconditional Obligation to Pay" and "MASTER DISTRICT CONTRACT." Capitalized terms used in this paragraph but not defined herein have the meanings ascribed to such terms in the Indenture. The Bonds are further secured by an Indenture of Trust (the "Indenture") from the Master District to The Bank of New York Mellon Trust Company, N.A., Houston, Texas, as trustee (the "Trustee"). Pursuant to the Indenture, the Master District has assigned to the Trustee for the benefit of the owners of the Remaining Outstanding Bonds, the Bonds and any additional contract revenue bonds, including contract revenue refunding bonds issued by the Master District under the terms of the Indenture (collectively, the "Contract Revenue Bonds") all of the Master District's right, title and interest in and to the Contract Payments under the Master District Contract and has assigned to the Trustee the right to assert and enforce all of the Master District's rights and remedies under the Master District Contract in the event of a default. Under the Indenture and pursuant to the Bond Resolutions, the Trustee will maintain debt service funds in an amount equal to principal and interest due on the Master District Water, Sewer and Drainage Bonds and Master District Road Bonds, respectively, in the succeeding annual period and reserve funds to be used to pay principal of and interest on the Master District Water, Sewer and Drainage Bonds and Master District Road Bonds, respectively, when insufficient funds are available for such purpose in the applicable Debt Service Fund, or to pay the principal of and interest on the Master District Water, Sewer and Drainage Bonds or Master District Road Bonds in connection with a refunding or redemption. See "THE BONDS—Funds" and "THE INDENTURE OF TRUST." The Reserve Requirement has been established in the Bond Resolution to be a sum of money equal to one half of the maximum annual debt service requirements on the Contract Revenue Bonds then outstanding. Any funds in excess of the Reserve Requirement held in the Reserve Fund for the Master District Water, Sewer and Drainage Bonds or the Master District Road Bonds, respectively, may be deposited into the Water, Sewer and Drainage or Road Debt Service Fund, respectively, as directed by the Master District's Board of Directors.

*Tax Rate of
Participants*

The tax levied by each Participant consists of the Contract Tax, together with the debt service tax and the maintenance tax for such Participant. The District, in its capacity as a Participant, levied a 2020 total tax rate in the amount of \$0.63 per \$100 of assessed value (\$0.185 for maintenance and operations and \$0.445 for the Contract Tax). MUD 2 levied a 2020 total tax rate in the amount of \$0.90 per \$100 of assessed value (\$0.26 for debt service, \$0.20 for maintenance and operations and \$0.44 for the Contract Tax). MUD 3 levied a 2020 total tax rate of \$0.92 (\$0.245 for debt service, \$0.195 for maintenance and operations and \$0.48 for the Contract Tax), and MUD 4 levied a 2020 total tax rate of \$0.825 (\$0.23 for debt service, \$0.15 for maintenance and operations and \$0.445 for the Contract Tax). See "INVESTMENT CONSIDERATIONS—Debt Burden on Property within the Participants."

*Municipal Bond Rating
and Municipal
Bond Insurance*

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 "A2" by Moody's Investors Service, Inc. ("Moody's") without regard to credit enhancement. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND RATING," "MUNICIPAL BOND INSURANCE," and "APPENDIX C."

Not Qualified Tax-Exempt Obligations... The Bonds are **not** designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

Bond CounselAllen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See “LEGAL MATTERS” and “TAX MATTERS.”

Underwriter’s Counsel.....McCall, Parkhurst & Horton L.L.P., Houston, Texas.

Financial Advisor.....Masterson Advisors LLC., Houston, Texas.

Trustee.....The Bank of New York Mellon Trust Company, N.A., Houston, Texas. See “THE INDENTURE OF TRUST.”

Paying Agent/Registrar.....The Bank of New York Mellon Trust Company, N.A., Houston, Texas.

Verification AgentPublic Finance Partners LLC, Minneapolis, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

THE MASTER DISTRICT CONTRACT

Participants.....The Participants are the District and MUD 2, MUD 3 and MUD 4. Each Participant is a municipal utility district organized and operating pursuant to Article XVI, Section 59 of the Constitution of Texas and Chapters 49 and 54, Texas Water Code. See “THE PARTICIPANTS” and “APPENDIX A.”

Debt Service Payments.....By execution of the Master District Contract, each of the Participants has agreed to make a Contract Payment in an amount equal to its pro rata share of debt service on the Contract Revenue Bonds, including the Bonds, plus all charges and expenses of paying agents, registrars and trustees, and all amounts required to establish and maintain funds established under the Bond Resolution or other bond resolutions adopted by the Board (the “Bond Resolutions”) or Indenture. Contract Revenue Bonds may be issued to finance Master District water, sewer and drainage and road facilities or to refund outstanding Contract Revenue Bonds.

The Contract Payment is determined by the gross certified assessed valuation of each such Participant as a percentage of the total gross certified assessed valuation of the Service Area. Each Participant is obligated to pay its Contract Payment from its Contract Tax, from revenues derived from operation of its water distribution and wastewater collection system, or from any other lawful source of funds. The Reserve Requirement (as defined in the Indenture) has been established in the Bond Resolutions to be a sum of money equal to one half of the maximum annual debt service requirements on the Contract Revenue Bonds then outstanding. See “THE BONDS—Source and Security of Payment,” “—Unconditional Obligation to Pay,” “—Funds” and “MASTER DISTRICT CONTRACT.”

The Participants are obligated severally, but not jointly, to make Contract Payments to the Master District. No Participant is obligated, contingently or otherwise, to make any Contract Payments owed by any other Participant; however, lack of payment by any Participant could result in an increase in the Contract Payment amount paid by each of the other Participants.

Water and Sewer Revenue.....Each Participant is obligated to pay monthly charges to the Master District for water and sewer services rendered pursuant to the Master District Contract. The monthly charges paid by each Participant to the Master District will be used to pay operations and maintenance expenses and to provide an operation and maintenance reserve equivalent to three (3) months of operations and maintenance expenses. The Master District Contract obligates each Participant to establish, maintain and from time to time adjust its rates, fees and charges for use of its wastewater collection system and water distribution system, or for the availability of such services, to the end that the gross revenues therefrom together with any taxes levied in support thereof and funds received from any other lawful source will be sufficient at all times to pay all operation and maintenance expenses of the Participant’s water distribution and wastewater collection system and its obligations to the Master District under the Master District Contract, including its obligation to pay its Contract Payment. See “MASTER DISTRICT CONTRACT.”

*Park Construction
Charges*

Pursuant to the Master District Contract, the Master District owns, constructed and/or acquired certain parks and recreational facilities for the benefit of all the Participants (the "Master District Park Facilities"). The Master District financed the capital costs of the existing Master District Park Facilities from payments made by each Participant, including the District in its capacity as a Participant, of its pro rata share of the Master District's existing capital costs of the Master District Park Facilities (the "Park Construction Charge") and expects to finance additional park facilities. The Park Construction Charge was and any Park Construction Charge for future Master District Park Facilities will be computed from time to time on the basis of the total capital costs of providing the Master District Park Facilities for the Service Area minus the payments which have been previously received from the Participants as Park Construction Charges, and dividing the result by the number of projected total connections to be constructed within the Service Area. In no event shall the total Park Construction Charges paid by any Participant under the Master District Contract exceed one percent (1%) of that Participant's certified appraised value pursuant to the Master District Contracts. See "THE PARTICIPANTS."

All Park Construction Charges received by the District will be deposited in a separate fund to be held in trust for the benefit of the Participants (the "Park Construction Fund") and will be used solely for the purpose of paying the capital costs of the Master District Park Facilities pursuant to the Master District Contract.

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds are subject to special INVESTMENT CONSIDERATIONS and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, particularly the section captioned "INVESTMENT CONSIDERATIONS."

SELECTED FINANCIAL INFORMATION (UNAUDITED)

Contract Revenue Bonds of the Master District and Overlapping Debt

Direct Debt (Including the Remaining Outstanding Bonds and the Bonds).....	\$114,160,000	
Estimated Overlapping Debt	<u>175,190,143</u>	(a)
Total Direct and Overlapping Debt	\$289,350,143	

Assessed Valuations of the Participants:

Gross Assessed Valuation (b)	MUD 1	MUD 2	MUD 3	MUD 4	Service Area
2016	\$ 19,007,616	\$ 778,853,302	\$ 689,062,560	\$ 782,939,664	\$ 2,269,863,142
2017	17,553,160	773,850,840	671,564,010	783,344,383	2,246,312,393
2018	20,339,849	784,954,764	669,651,960	793,597,666	2,268,544,239
2019	21,557,539	795,105,139	681,854,763	793,850,446	2,292,367,887
2020	22,935,973	812,259,648	671,489,448	808,193,558	2,314,878,627
2021 (c)	25,958,719	834,642,532	705,884,006	832,894,634	2,399,379,891

Direct Debt (including the Remaining Outstanding Bonds and the Bonds) as a % of
2021 Gross Assessed Valuation (c) 4.76%

Direct Debt and Estimated Overlapping Debt as a % of
2021 Gross Assessed Valuation (c) 12.03%

Participants' Gross Value as a Percentage of the Service Area

<u>Participant</u>	2019 Certified Gross Assessed Valuation (b)	% of 2019 Gross Assessed Valuation (b)	2020 Certified Gross Assessed Valuation (b)	% of 2020 Gross Assessed Valuation (b)	2021 Gross Assessed Valuation (c)	% of 2021 Gross Assessed Valuation (c)
MUD 1	\$ 21,557,539	0.94%	\$ 22,935,973	0.99%	\$ 25,958,719	1.08%
MUD 2	795,105,139	34.68%	812,259,648	35.09%	834,642,532	34.79%
MUD 3	681,854,763	29.74%	671,489,448	29.01%	705,884,006	29.42%
MUD 4	793,850,446	34.63%	808,193,558	34.91%	832,894,634	34.71%
Total of Service Area	\$ 2,292,367,887	100.00%	\$ 2,314,878,627	100.00%	\$ 2,399,379,891	100.00%

- (a) See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Estimated Overlapping Debt."
 (b) As certified by the Fort Bend Central Appraisal District (the "Appraisal District").
 (c) The Appraisal District has certified \$2,394,966,521 of gross taxable value and an additional \$4,413,370 remains uncertified and subject to review and downward revision prior to certification. See "TAXING PROCEDURES."

2020 Participant Tax Rates:

Participant	2020 Debt Service Tax	2020 Maintenance Tax	2020 Contract Tax	Participant Total Tax Rate (a)
Cinco Southwest MUD No. 1	\$ -	\$ 0.1850	\$ 0.4450	\$ 0.6300
Cinco Southwest MUD No. 2	0.2600	0.2000	0.4400	0.9000
Cinco Southwest MUD No. 3	0.2450	0.1950	0.4800	0.9200
Cinco Southwest MUD No. 4	0.2300	0.1500	0.4450	0.8250

Status of Development as of June 1, 2021 (b):

	<u>MUD 1</u>	<u>MUD 2</u>	<u>MUD 3</u>	<u>MUD 4</u>	<u>Total</u>
Completed Lots	-	1,800	1,719	1,690	5,209
Active Residential Connection	-	1,793	1,718	1,682	5,193
Inactive Residential Connection	-	7	1	8	16
Multi-Family Units	165	-	-	502	667
Estimated Population (c)	371	6,276	6,013	7,017	19,676

Master District Debt Service Funds Available as of July 1, 2021 (d):

Water, Sewer and Drainage Reserve Fund Balance	\$4,870,772
Road Reserve Fund Balance.....	<u>711,044</u>
Total Reserve Funds Available	\$5,581,816 (d)
Water, Sewer and Drainage Debt Service Fund Balance	\$8,490,105 (e)
Road Debt Service Fund Balance.....	<u>961,708 (e)</u>
Total Debt Service Funds Available	\$9,451,813
Total Available for Debt Service.....	\$15,033,629

Debt Service Requirements:

Maximum Annual Debt Service Requirement (2022), after issuance of the Bonds	\$10,378,819 (f)
Average Annual Debt Service Requirement (2022-2038), after issuance of the Bonds	\$7,834,287 (f)

Master District Operating and Capital Project Funds Available as of July 1, 2021:

Operating Funds Available.....	\$5,551,707
Water, Sewer and Drainage Capital Project Funds.....	\$58,898
Road Capital Projects Funds Available.....	\$152,897 (g)

- (a) Does not include overlapping taxes of the county and school district or any other taxing jurisdiction. See “FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Overlapping Taxes.”
- (b) See “THE SERVICE AREA—Land Use and Status of Development.”
- (c) Based upon 3.5 persons per occupied single-family residence in the Service Area and 2.5 persons per occupied multi-family residence (assumes 90% apartment occupancy on the 667 apartment units).
- (d) Although all of the Contract Revenue Bonds are payable from payments made by each Participant on parity, a pro rata portion of \$330,225.51 and \$62,181.20 in water, sewer and drainage reserve funds and road reserve funds, respectively, will be applied to the issuance of the related series of Bonds.
- (e) The Participants’ Contract Payments will be allocated to the Water, Sewer, and Drainage Bonds, such as the Series 2021 Refunding Bonds, and a pro rata portion will be allocated to the Road Bonds, such as the Series 2021A Road Refunding Bonds (see “FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Outstanding Bonds”). The Road Debt Service Fund is not pledged to the Water, Sewer and Drainage Bonds nor are funds in the Water, Sewer, and Drainage Debt Service Fund pledged to the Road Bonds.
- (f) See “FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Debt Service Requirements.”
- (g) \$149,520.83 of surplus capital project funds will be applied to the Series 2021A Road Refunding Bonds.

OFFICIAL STATEMENT

CINCO SOUTHWEST MUNICIPAL UTILITY DISTRICT NO. 1 (A political subdivision of the State of Texas located within Fort Bend County)

\$19,205,000
CONTRACT REVENUE
REFUNDING BONDS
SERIES 2021

\$1,835,000
CONTRACT REVENUE
ROAD REFUNDING BONDS
SERIES 2021A

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Cinco Southwest Municipal Utility District No. 1 (the “Master District” or the “District”) of its \$19,205,000 Contract Revenue Refunding Bonds, Series 2021 (the “Series 2021 Refunding Bonds”) and its \$1,835,000 Contract Revenue Road Refunding Bonds, Series 2021A (the “Series 2021A Road Refunding Bonds”). The Series 2021 Refunding Bonds and the Series 2021A Road Refunding Bonds are collectively referred to herein as the “Bonds.”

The Bonds are issued pursuant to the Second Amended Contract for Financing, Operation, and Maintenance of Regional Water, Sanitary Sewer, Storm Sewer, Park, Road and Other Facilities (the “Master District Contract”) between the Master District and each of the Participants (as defined below), Article XVI, Section 59 of the Texas Constitution in the case of the Series 2021 Bonds; Article III, Section 52 of the Texas Constitution in the case of the Series 2021A Road Refunding Bonds, Chapter 8224, Texas Special District Local Laws Code, Chapters 49 and 54 of the Texas Water Code, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, separate resolutions authorizing the issuance of the Series 2021 Refunding Bonds and the Series 2021A Road Refunding Bonds (the “Bond Resolutions”) adopted by the Board of Directors of the Master District (the “Board”) and an Indenture of Trust by and between the Master District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Indenture”).

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds, the Bond Resolution and the Indenture, certain other information about the Master District and Cinco Southwest Municipal Utility District Nos. 2, 3 and 4 (collectively with the District in its capacity as provider of internal facilities to the land within its boundaries, the “Participants”), the approximate 2,390 acre area (the “Service Area”) being provided with regional water, sanitary sewer, storm sewer, park, road and other facilities (the “Master District Facilities”) constructed by the Master District, and the Master District Contract. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents referenced herein may be obtained from the District, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

PLAN OF FINANCING

Purpose

At elections held on November 6, 2007, the voters of each Participant approved the Master District Contract, thereby authorizing the levy of a tax to make Contract Payments, which include debt service on the Remaining Outstanding Bonds (as defined below), the Bonds and any future Contract Revenue Bonds and Contract Revenue Refunding Bonds. The District has issued \$141,235,000 principal amount of Contract Revenue Bonds, \$21,425,000 principal amount of Contract Revenue Road Bonds, \$72,785,000 principal amount of Contract Revenue Refunding Bonds and \$11,970,000 principal amount of Contract Revenue Road Refunding Bonds as shown herein under “Outstanding Bonds” in this section. The District currently has \$114,440,000 principal amount of such Contract Revenue Bonds outstanding (the “Outstanding Bonds”).

The Bonds are being issued to currently refund \$1,240,000 principal amount of the Series 2012 Contract Revenue Bonds, \$360,000 principal amount of the Series 2012 Contract Revenue Road Bonds, \$18,105,000 principal amount of the Series 2013 Contract Revenue Bonds and \$1,615,000 principal amount of the Series 2013 Contract Revenue Road Bonds (collectively the “Refunded Bonds”) in order to achieve a net savings in the District’s annual debt service requirements through the year 2038. See “Debt Service Requirements” herein. The Refunded Bonds are described in more detail below under “Refunded Bonds.” A total of \$93,120,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds and the discharge of the Refunded Bonds (the “Remaining Outstanding Bonds”).

Refunded Bonds

Proceeds of the Bonds, together with lawfully available funds of the District, will be used to currently refund the Outstanding Bonds shown in the table below.

<u>Maturity Date</u>	<u>Series 2012</u>	<u>Series 2012 Road</u>	<u>Series 2013</u>	<u>Series 2013 Road</u>
2022	\$ 620,000	\$ 360,000	\$ 1,065,000	\$ 95,000
2023	620,000	-	1,065,000	95,000
2024	-	-	1,065,000	95,000
2025	-	-	1,065,000	95,000
2026	-	-	1,065,000	95,000
2027	-	-	1,065,000	95,000
2028	-	-	1,065,000	95,000
2029	-	-	1,065,000	95,000
2030	-	-	1,065,000	95,000
2031	-	-	1,065,000	95,000
2032	-	-	1,065,000	95,000
2033	-	-	1,065,000	95,000
2034	-	-	1,065,000	95,000
2035	-	-	1,065,000	95,000
2036	-	-	1,065,000	95,000
2037	-	-	1,065,000	95,000
2038	-	-	1,065,000	95,000
	<u>\$ 1,240,000</u> *	<u>\$ 360,000</u>	<u>\$ 18,105,000</u>	<u>\$ 1,615,000</u>
 Redemption Date	 September 3, 2021	 September 3, 2021	 December 1, 2021	 December 1, 2021

The redemption date shown above represents the estimated date the Refunded Bonds will be redeemed.

Escrow Agreement

The Refunded Bonds, and the interest due thereon, are to be paid on each principal or Interest Payment Date and on their redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas as escrow agent (the "Escrow Agent").

The Bond Resolutions provide that the District and the Escrow Agent will enter into an escrow agreement for each series of Bonds (the "Escrow Agreements") to provide for the discharge and defeasance of the Refunded Bonds. The Bond Resolutions further provide that from the proceeds of the sale of each series of the Bonds and lawfully available funds of the District the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in segregated escrow accounts (the "Escrow Fund") and used to purchase United States Treasury Obligations or other investments authorized by Chapter 1207 Texas Government Code (the "Escrowed Securities"). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Escrow Agent and the Underwriter that the Escrowed Securities are sufficient in principal amount and are scheduled to mature at such times and to yield interest in such amounts, together with cash, if any, in the Escrow Fund, to pay, when due, the principal of and interest on each series of the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS." Under the Escrow Agreements, the Escrow Funds are irrevocably pledged to the payment of principal of and interest on the related series of Refunded Bonds and will not be available to pay principal of and interest on the Bonds.

Defeasance of Refunded Bonds

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreements, and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior resolutions of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited and invested in the Escrow Fund for each series will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

Sources and Uses of Funds

The proceeds derived from the sale of the Series 2021 Refunding Bonds will be applied as follows:

Sources of Funds:	
Principal Amount of the Series 2021 Refunding Bonds.....	\$19,205,000.00
Plus: Premium on the Series 2021 Refunding Bonds.....	800,591.85
Plus: Transfer from Water, Sewer and Drainage Debt Service Reserve Fund.....	<u>330,225.51</u>
Total Sources of Funds.....	\$20,335,817.36
Uses of Funds:	
Deposit to Escrow Fund.....	\$19,724,266.33
Issuance Expenses and Underwriter's Discount (a).....	<u>611,551.03</u>
Total Uses of Funds.....	\$20,335,817.36

The proceeds derived from the sale of the Series 2021A Road Refunding Bonds will be applied as follows:

Sources of Funds:	
Principal Amount of the Series 2021A Road Refunding Bonds.....	\$1,835,000.00
Plus: Premium on the Series 2021A Road Refunding Bonds.....	63,294.95
Plus: Transfer From Road Debt Service Reserve Fund.....	62,181.20
Plus: Transfer From Road Capital Projects Fund.....	<u>149,520.83</u>
Total Sources of Funds.....	\$2,109,996.98
Uses of Funds:	
Deposit to Escrow Fund.....	\$2,014,490.04
Issuance Expenses and Underwriter's Discount (a).....	<u>95,506.94</u>
Total Uses of Funds.....	\$2,109,996.98

(a) Includes municipal bond insurance premium

THE BONDS

Description

The Bonds will be dated September 1, 2021, and will accrue interest from the Date of Delivery, with interest payable each December 1 and June 1, beginning December 1, 2021 (the "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., Houston, Texas as the initial paying agent/registrant for the Bonds (the "Paying Agent/Registrar"). 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 the United States of America. In the event the book-entry-only 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 Houston, 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 (the "Registered Owner") as of the close of business on the May 15 or November 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.

Source and Security of Payment

Principal of and interest on the Contract Revenue Bonds, including the Bonds, are payable from and secured by each Participant's unconditional obligation to make certain payments pursuant to the Master District Contract. By execution of the Master District Contract, the Participants have each agreed to make a Contract Payment in an amount equal to their pro rata share of debt service on the Contract Revenue Bonds plus all charges and expenses of paying agents, registrars and trustees, and all amounts required to establish and maintain funds, including the Reserve Fund, established under the Bond Resolutions or Indenture (the "Contract Payment"). The Contract Payment is determined by the gross certified assessed valuation of each Participant as a percentage of the total gross certified assessed valuation of the Service Area. Each Participant is obligated to make its Contract Payment from the proceeds of an annual unlimited ad valorem tax levied by such Participant on land within its boundaries for such purpose (the "Contract Tax"), revenues derived from the operation of its water distribution and wastewater collection system or from any other lawful source of funds. No Participant is liable for the payments due by any other Participant; however, failure of any Participant to make its Contract Payment could result in an increase in the Contract Payment amount paid by each of the other Participants. See "MASTER DISTRICT CONTRACT." The Master District shall calculate on or before September 1 of each year, or as soon thereafter as practical, the amount of Contract Payments due from each Participant in the following calendar year. The Contract Payments shall be billed to each Participant by the Master District on or before September 1 of the year prior to the year in which such Contract Payments become due, or as soon thereafter as practical. Such Contract Payments shall be due and payable from each Participant directly to the Trustee semiannually on or before March 1 and September 1 of each year. The levy of a Contract Tax for the purpose of paying debt service on the Contract Revenue Bonds is the sole responsibility of each Participant.

Unconditional Obligation to Pay

All charges imposed by the Master District to pay debt service on the Contract Revenue Bonds will be made by the Participants without set-off, counterclaim, abatement, suspension or diminution, nor will any Participant have any right to terminate the Master District Contract nor be entitled to the abatement of any such payment or any reduction thereof nor will the obligations of the Participants be otherwise affected for any reason, including without limitation acts or conditions of the Master District that might be considered failure of consideration, eviction or constructive eviction, destruction or damage to the Master District Facilities, failure of the Master District to perform and observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or connected with the Master District Contract. All sums required to be paid by the Participants to the Master District for such purposes will continue to be payable in all events and the obligations of the Participants will continue unaffected, unless the requirement to pay is reduced or terminated pursuant to an express provision of the Master District Contract. If any Participant disputes the amount to be paid to the Master District, the Participant shall nonetheless promptly make payments as billed by the Master District, and if it is subsequently determined by agreement, arbitration, regulatory decision, or court decision that such disputed payment should have been less, the Master District will then make proper adjustments to all Participants so that the Participant will receive credit for its overpayments.

Funds

In the Bond Resolutions, the Water, Sewer and Drainage Debt Service Fund, the Road Debt Service Fund, the Water, Sewer and Drainage Reserve Fund and the Road Reserve Fund are confirmed, and the proceeds from Contract Payments collected for and on account of the Bonds authorized by the Bond Resolutions shall be deposited, as collected, in such funds, respectively.

The Water, Sewer and Drainage Debt Service Fund and the Water, Sewer and Drainage Reserve Fund are not pledged to any Road Bonds, including the Series 2021A Road Refunding Bonds and the Road Debt Service Fund and Road Reserve Fund are not pledged to any Water, Sewer, and Drainage Bonds, including the Series 2021 Refunding Bonds. Funds in the Water, Sewer, and Drainage Debt Service Fund and funds in the Water, Sewer, and Drainage Reserve Fund are not available to pay principal and interest on the Series 2021A Road Refunding Bonds or any outstanding Road Bonds and funds in the Road Debt Service Fund and Road Reserve Fund are not available to pay principal and interest on the Series 2021 Refunding Bonds or any outstanding Water, Sewer, and Drainage Bonds.

Redemption Provisions

Mandatory Redemption: The Series 2021A Road Refunding Bonds maturing on December 1 in each of the years 2032, 2035 and 2038 (the “Series 2021A Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), on December 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below):

\$260,000 Term Bonds Due December 1, 2032		\$230,000 Term Bonds Due December 1, 2035		\$200,000 Term Bonds Due December 1, 2038	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2030	\$ 90,000	2033	\$ 80,000	2036	\$ 70,000
2031	85,000	2034	75,000	2037	65,000
2032 (maturity)	85,000	2035 (maturity)	75,000	2038 (maturity)	65,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Registrar shall (i) determine the principal amount of such Series 2021A Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Series 2021A Term Bond or portions of the Series 2021A Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Series 2021A Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Series 2021A Term Bond, which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on and after December 1, 2028, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000, on December 1, 2027, 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).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like series, maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the 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 which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Authority for Issuance

At elections held on November 6, 2007, the voters of each Participant approved the Master District Contract, and the levy of a Contract Tax in support thereof. The Master District Contract authorized the Master District to issue a total of \$562,000,000 in principal amount of Contract Revenue Bonds to provide Master District Facilities and for refunding such bonds, of which \$455,000,000 is authorized for Master District water, sewer and drainage facilities and \$107,000,000 is authorized for Master District road facilities. Contract Revenue Bonds in excess of such amounts may only be issued upon approval of the voters of each Participant. See “Issuance of Additional Contract Revenue Bonds” below.

The Bonds are issued by the District pursuant to the Master District Contract, the Indenture, the terms and conditions of the Bond Resolutions, Article XVI, Section 59 of the Texas Constitution in the case of the Series 2021 Refunding Bonds, Article III, Section 52 of the Texas Constitution in the case of the Series 2021A Road Refunding Bonds, Chapter 8224, Texas Special District Local Laws Code, Chapters 49 and 54 of the Texas Water Code, Chapter 1207 of the Texas Government Code, City of Houston Ordinance No. 97-416 and 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 delivered, 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.

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 Resolutions.

In the event the Book-Entry-Only System should be discontinued, Bonds shall be transferable only upon the presentation and surrender of such Bonds at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefore, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same series, maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolutions and the Indenture to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

Lost, Stolen or Destroyed Bonds

Upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefore a replacement Bond of like series, maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like series, maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed Bonds will be required to pay the District's costs to replace such Bonds. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Issuance of Additional Contract Revenue Bonds

The voters of the Participants have approved the Master District Contract, as the same may be amended from time to time. The Master District Contract currently authorizes the Master District to issue \$562,000,000 principal amount of Contract Revenue Bonds to provide Master District Facilities and for refunding purposes, of which \$455,000,000 is for water, sewer and drainage facilities and \$107,000,000 is for roads. All Contract Revenue Bonds currently outstanding or to be issued in the future are on parity with the Bonds. After issuance of the Bonds, the District will have \$305,417,029.93 principal amount of Contract Revenue Bonds for water, sewer and drainage facilities and \$85,180,248.56 principal amount of Contract Revenue Road Bonds authorized but unissued.

The Master District Contract, the Indenture and the Bond Resolutions impose no other limitation on the amount of additional parity bonds which may be issued by the Master District. See “THE PARTICIPANTS” for information on other debt that can be issued by the District in its capacity as a Participant.

Financing Parks and Recreational Facilities

Pursuant to the Master District Contract, the Master District owns, constructed and/or acquired certain parks and recreational facilities for the benefit of all the Participants (the “Master District Park Facilities”). The Master District financed the capital costs of the existing Master District Park Facilities from payments made by each Participant, including the District, in its capacity as a Participant, of its pro rata share of the Master District’s existing capital costs of the Master District Park Facilities (the “Park Construction Charge”). The Park Construction Charge was and any Park Construction Charge for future Master District Park Facilities will be computed from time to time on the basis of the total capital costs of providing the Master District Park Facilities for the Service Area minus the payments which have been previously received from the Participants as Park Construction Charges, and dividing the result by the number of projected total connections to be constructed within the Service Area. In no event shall the total Park Construction Charges paid by any Participant under the Master District Contract exceed one percent (1%) of that Participant’s certified assessed value.

All Park Construction Charges received by the Master District shall be deposited into a separate fund to be held in trust for the benefit of the Participants (the “Park Construction Fund”) and shall be used solely for the purpose of paying the capital costs of the Master District Park Facilities pursuant to the Master District Contract. Funds in the Park Construction Fund are not available to pay principal and interest on the Bonds.

Annexation

Under existing Texas law, since the Master District and each of the other Participants lie wholly within the extraterritorial jurisdiction of the City of Houston, each Participant must conform to a City of Houston consent ordinance. Generally, any Participant may be annexed by the City of Houston without the Participant’s consent, and the City of Houston cannot annex territory within a district unless it annexes the entire district; however, the City of Houston 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, the Master District, and each of the other Participants specifying the procedures for full purpose annexation of all or a portion of the Master District.

If a Participant is annexed, the City of Houston will assume the Participant’s assets and obligations (including the Participant’s pro rata share of debt service on the Bonds) and dissolve the Participant within ninety (90) days, except as provided herein under “THE PARTICIPANTS—Strategic Partnership.” 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 or any Participant and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its 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

Remedies available to Registered Owners of Bonds in the event of a default by the Master District in one or more of its obligations under the Bond Resolutions are limited and generally must be exercised by the Trustee. See “THE INDENTURE OF TRUST—Remedies—Limitation on Action by Registered Owners.” The Registered Owners, acting through the Trustee, and except as otherwise set forth in the Indenture, may obtain a writ of mandamus requiring performance of the Master District’s obligations, but such remedy must be exercised upon each default and may prove time-consuming, costly and difficult to enforce. The Bond Resolutions do not provide for acceleration of maturity of the Bonds, or any other additional remedy in the event of a default by the Master District and consequently, the remedy of mandamus may have to be relied upon from year-to-year. The Bonds are not secured by an interest in the Master District Facilities or any other property of the Master District. No judgment against the Master District is enforceable by execution of a levy against the Master District’s public purpose property. Further, the Registered Owners themselves cannot foreclose on property within the Master District or the Service Area or sell property within the Master District or the Service Area in order to pay the principal of and interest on the Bonds. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. Certain traditional legal remedies may also not be available. See “THE INDENTURE OF TRUST—Remedies—Limitation on Action by Registered Owners” and “INVESTMENT CONSIDERATIONS—Registered Owners’ Remedies—Bankruptcy Limitation to Registered Owners’ Rights.”

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 Resolutions provide 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, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision 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 the 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 Registered 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-only 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 so do 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 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. One fully-registered Bond certificate will be issued for each maturity of each series 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of AA+ from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not 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 detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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 Underwriter take any responsibility for the accuracy thereof.

THE INDENTURE OF TRUST

Capitalized terms used in this section but not defined in this OFFICIAL STATEMENT have the meanings ascribed to such term in the Indenture. The Contract Revenue Bonds are secured under the Indenture. Pursuant to the Indenture, the Master District has assigned to the Trustee all of the Master District's right, title and interest in and to the Contract Payments under the Master District Contract. Such Contract Payments, together with all amounts from time to time on deposit in the Debt Service Funds for the Master District Water, Sewer and Drainage Bonds and the Master District Road Bonds and Reserve Funds for the Master District Water, Sewer and Drainage Bonds and the Master District Road Bonds maintained by the Trustee pursuant to the Indenture, together with any other security from time to time hereafter granted to the Trustee, shall constitute the "Pledged Revenues" held by the Trustee under the Indenture.

Pursuant to the Indenture, the Trustee is to maintain the Debt Service Fund (Water, Sewer and Drainage) and Reserve Fund (Water, Sewer and Drainage) as trust funds to be held in trust solely for the benefit of the Registered Owners of the Master District Water, Sewer and Drainage Bonds only, and the Trustee is to maintain the Debt Service Fund (Road) and Reserve Fund (Road) as trust funds to be held in trust for the benefit of the Registered Owners of the Master District Road Bonds only. See "THE BONDS—Funds." The Master District has covenanted in the Indenture that it will cause to be charged to each Participant, and collected and deposited into the Debt Service Funds, Pledged Revenues in amounts sufficient, together with other Pledged Revenues, to provide for the payment of all interest due on the Contract Revenue Bonds on or before each Interest Payment Date and all principal payable on the Contract Revenue Bonds on each principal payment date. The Debt Service Funds and the Reserve Funds are to be invested only in investments authorized by the laws of the State of Texas but must be invested in a manner such that the money required to be expended from any fund will be available at the proper time or times. Amounts in the Reserve Funds shall be used to pay interest on and principal of the Master District Water, Sewer and Drainage Bonds or Master District Road Bonds, as appropriate, when insufficient funds are available for such purpose in the applicable Debt Service Fund or shall be applied toward the payment of principal of or interest on the Contract Revenue Bonds in connection with a refunding or redemption. The Reserve Requirement has been established in the Bond Resolutions to be, with respect to the Contract Revenue Bonds, a sum of money equal to one-half of the maximum annual debt service requirements on the Contract Revenue Bonds then outstanding. Any funds in excess of the Reserve Requirement held in the Reserve Funds may be deposited into the applicable Debt Service Fund, as directed by the Master District's Board of Directors.

Events of Default

The Indenture provides that an Event of Default shall be either of the following occurrences:

- (a) Failure to pay when due the principal, redemption price or interest on any Contract Revenue Bond; or
- (b) Failure to deposit into the applicable Debt Service Fund money sufficient to pay any principal of or interest on any Contract Revenue Bond no later than the date when it becomes due and payable.

Remedies

Upon the occurrence of an Event of Default, the Trustee is required to give immediate notice thereof to the Master District and, subject to the other provisions of the Indenture, may proceed to protect and enforce its rights and the rights of the Registered Owners of the Contract Revenue Bonds by suit, action or proceeding at equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in the Indenture, Bond Resolutions or Contract Revenue Bonds or in aid of the execution of any power granted in the Indenture or for the enforcement of any legal, equitable or other remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or such Registered Owner, including, without limitation, requesting a writ of mandamus issued by a court of competent jurisdiction compelling the directors and other officers of the Master District or any Participant to make such payment (but only from and to the extent of the sources provided in the Indenture) or to observe and perform its other covenants, obligations and agreements in the Indenture or the Master District Contract. The Indenture provides that the Trustee may seek the appointment of receivers, may act without possession of the Contract Revenue Bonds, the Trustee may act as attorney in fact for the Registered Owners of the Contract Revenue Bonds, no remedy is exclusive and that the delay or omission in the exercise of any right or remedy shall not constitute a waiver.

The Indenture does not provide for any acceleration of maturity of the Contract Revenue Bonds or provide for the foreclosure upon any property or assets of the Master District, other than applying the Pledged Revenues in the manner provided in the Indenture.

The Master District has assigned to the Trustee the right to assert and enforce all of the Master District's rights and remedies under the Master District Contract in the event of a default.

Limitation on Action by Registered Owners

The Indenture imposes certain limitations on Registered Owners of Contract Revenue Bonds to institute suits, actions or proceedings at law or in equity for the appointment of a receiver or other remedy unless and until the Trustee shall have received the written request of the Registered Owners of not less than 25% of all Contract Revenue Bonds then outstanding and the Trustee shall have refused or neglected to institute such suit, action or proceeding for a period of 10 days after having been furnished reasonable indemnity. Notwithstanding the foregoing, Registered Owners of more than 50% of the aggregate principal amount of the Contract Revenue Bonds then outstanding shall have the right, by written instrument delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture.

Amendments to the Indenture of Trust

Without the consent of the Registered Owners, the Master District and the Trustee may from time to time enter into one or more indentures supplemental to the Indenture, which shall form a part of the Indenture, for any one or more of the following purposes:

- (1) to cure any ambiguity, inconsistency or formal defect or omission in this Indenture;
- (2) to grant to or confer upon the Trustee for the benefit of the Registered Owners of the Contract Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners of the Contract Revenue Bonds or the Trustee or either of them;
- (3) to subject to the lien of this Indenture additional revenues, properties or collateral;
- (4) to modify, amend or supplement this Indenture or any supplemental indenture in such manner as to provide further assurances that interest on the Contract Revenue Bonds will, to the greatest extent legally possible, be excludable from gross income for federal income tax purposes;
- (5) to obtain bond insurance for the Contract Revenue Bonds;
- (6) to permit any Contract Revenue Bonds to be issued in book-entry-only form; and
- (7) to permit the assumption of the Master District's obligations hereunder by the City of Houston or other entity that may become the legal successor to the Master District;

provided, however, that no provision in such supplemental indenture shall be inconsistent with the Indenture or shall impair in any manner the rights of the Registered Owners of the Contract Revenue Bonds.

Except as provided in the preceding paragraph, any modification, change or amendment of the Indenture may be made only by a supplemental indenture adopted and executed by the Master District and the Trustee with the consent of the Registered Owners of not less than a majority of the aggregate principal amount of the Contract Revenue Bonds then outstanding. However, without the consent of the Registered Owner of each outstanding Contract Revenue Bond, no modification, change or amendment to this Indenture shall:

- (1) extend the time of payment of the principal thereof or interest thereon, or reduce the principal amount thereof or premium, if any, thereon, or the rate of interest thereon, or make the principal thereof or premium, if any, or interest thereon payable in any coin or currency other than that hereinbefore provided, or deprive such Registered Owner of the lien hereof on the revenues pledged hereunder; or
- (2) change or amend the Indenture to permit the creation of any lien on the revenues pledged hereunder equal or prior to the lien hereof, or reduce the aggregate principal amount of Contract Revenue Bonds.

Removal or Resignation of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, signed by the Registered Owners of a majority in principal amount of the Contract Revenue Bonds then outstanding and delivered to the Trustee, with notice thereof given to the Master District.

The Trustee may at any time resign and be discharged from the trusts created by giving written notice to the Master District and by providing written notice to the Registered Owners of its intended resignation at least sixty (60) days in advance thereof. Such notice shall specify the date on which such resignation shall take effect and shall be sent by first class mail, postage prepaid to each Registered Owner of Contract Revenue Bonds. Resignation by the Trustee shall not take effect unless and until a successor to such Trustee shall have been appointed as hereinafter provided.

Appointment of Successor Trustee

In case the Trustee shall resign, or shall be removed or dissolved, or shall be in the course of dissolution or liquidation, or shall otherwise become incapable of acting, or in case the Trustee shall be taken under control of any public officer or officers or a receiver appointed by a court, a successor may be appointed by the Registered Owners of a majority in principal amount of the Contract Revenue Bonds then outstanding, by an instrument or concurrent instruments in writing, signed by such Registered Owners or their duly authorized representatives and delivered to the Trustee, with notice thereof given to the Master District; provided, however, that in any of the events above mentioned, the Master District may nevertheless appoint a temporary Trustee to fill such vacancy until a successor shall be appointed by the Registered Owners in the manner above provided, and any such temporary Trustee so appointed by the Master District shall immediately and without further act be automatically succeeded by the successor to the Trustee appointed by the Registered Owners. The Master District shall provide written notice to the Registered Owners of the appointment of any successor Trustee, whether temporary or permanent, in the manner provided for providing notice of the resignation of the Trustee as described above under “—Removal or Resignation of Trustee.” Any successor Trustee or temporary Trustee shall be a trust company or bank in good standing located in or incorporated under the laws of the State of Texas duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$100,000,000.

In the event that no appointment of a successor Trustee is made by the Registered Owners or by the Master District pursuant to the foregoing provisions of this Section at the time a vacancy in the office of the Trustee shall have occurred, the Registered Owner of any Contract Revenue Bond issued hereunder or the retiring Trustee may apply to any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice as it shall deem proper, if any, appoint a successor Trustee.

THE PARTICIPANTS

Creation, Authority and Description

All Participants (including the District) operate as municipal utility districts pursuant to Chapter 49 and Chapter 54 of the Texas Water Code and are political subdivisions of the State of Texas. The creations of the Participants were initiated separately to finance the construction of water, sanitary sewer, storm sewer and park facilities within their boundaries. Each of the Participants obtained road powers by special act of the Texas Legislature in the 80th Regular Legislative Session (2007).

The Participants are empowered to exercise all the powers and functions which will permit accomplishment of the purposes for which they were created. Each Participant may issue bonds authorized by its board of directors and (if payable from taxes) its voters, to acquire and maintain facilities necessary to providing water, sanitary sewer, storm sewer, parks and certain roads to the land within its boundary. In addition, water, sanitary sewer, storm sewer and park bonds must be approved by the TCEQ. Each Participant may also establish, operate, and maintain a fire department or contract for firefighting services, if the TCEQ and its voters approve a plan for that purpose.

The TCEQ exercises continuing supervisory jurisdiction over the Participants, including the District in such capacity. In order to obtain the consent for creation of the Participants from the City of Houston, within whose extraterritorial jurisdiction the Participants lie, each Participant is required to observe certain requirements of the City of Houston which (1) limit the purposes for which the Participant may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, drainage, park and road facilities, (2) require approval by the City of Houston of Participant construction plans, and (3) permit connections only to single-family lots and commercial or multi-family/commercial platted reserves which have been approved by the Planning Commission of the City of Houston.

Authorized Bonds

The District, in its capacity as a Participant, and the other Participants have each voted unlimited tax bonds for purposes of providing internal water distribution, wastewater collection and storm drainage facilities, internal roads within their respective boundaries (separate and apart from the Master District Facilities) and parks and recreational facilities pursuant to each Master District Contract. A Participant may not issue park bonds in an amount greater than one percent (1%) of its certified assessed value. See “APPENDIX A” for more detailed information on each Participant’s authorized and issued bonds.

The District and each other Participant is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District or any other Participant could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) amendments to the existing City of Houston ordinance specifying the purposes for which the District or such Participant may issue bonds; (b) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District or such Participant; (c) approval of the master plan and issuance of bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board of Directors of the District has not considered calling an election to authorize firefighting activities at this time. The District and each of the other Participants are within the boundaries of an emergency services district that provides fire-fighting services; therefore, it is not anticipated that the District or any of the other Participants will provide fire-fighting services.

Operations

Each Participant constructed the internal water distribution system, wastewater collection system and storm sewers within such Participant's boundaries. Pursuant to the Master District Contract, each Participant is required to purchase potable water from the Master District and sell such water to its customers, and collect domestic wastewater from its customers, which the Master District treats and discharges. Each Participant sets its own retail rates for water and sewer service, and is required by the Master District Contract to do so at a level which will produce sufficient revenue to pay operating and maintenance charges of the Master District, to pay other costs of operating and maintaining its own utility system, and, together with tax revenues, to pay its Contract Payments. The Master District does not expect that revenues from the Participants' retail charges will ever be sufficient to pay a significant portion of Contract Payments for application to debt service on the Contract Revenue Bonds.

Contract Tax

The Participants have the statutory authority to levy and collect the Contract Tax for the payment of each Participant's pro rata share of the Contract Payments due under the Master District Contract for debt service on the Contract Revenue Bonds. Such a tax must be authorized by the Participant's voters, and voters of each Participant have authorized such a tax. Each Participant's pro rata share of the Contract Payments is determined by dividing the Participant's gross certified assessed value by the total of the Service Area's gross certified assessed valuation. The Master District Contract obligates each Participant to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of an annual unlimited Contract Tax, from revenues derived from the operation of its water distribution and wastewater collection system, or from any other legally available funds.

Debt Service Tax

The Participants, including the District, have the statutory authority to levy and collect a continuing annual ad valorem tax unlimited in amount to pay principal and interest on bonds issued to provide internal water distribution, wastewater collection and storm drainage, roads, and parks and recreational facilities to the land within their boundaries. The voters of each Participant have authorized such a tax. See "APPENDIX A."

Maintenance Tax

The Participants, including the District, have the statutory authority to levy and collect an annual ad valorem tax unlimited in amount for the operation and maintenance of internal water distribution, wastewater collection, and storm drainage facilities, parks and recreational facilities, and road facilities. Such a maintenance tax must be authorized by the Participant's voters prior to the levy of a maintenance tax. A maintenance tax is in addition to taxes which the Participant is authorized to levy for paying principal of and interest on its unlimited tax bonds and the Contract Tax. The voters of each Participant have authorized such a tax. See "APPENDIX A."

Strategic Partnership

The District, in its capacity as a Participant, is authorized to enter into a strategic partnership agreement ("SPA") with the City of Houston to provide the terms and conditions under which (i) services would be provided and funded by the parties and (ii) the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City of Houston. The terms of any such agreement would be determined by the City of Houston and the District. Although the City of Houston has negotiated and entered into such an agreement with other districts within its extraterritorial jurisdiction, the District does not have an SPA with the City of Houston at this time and no representation can be made regarding the future likelihood of any such agreement or the terms thereof.

Each of the other Participants is also authorized to enter into an SPA. MUD 2, MUD 3 and MUD 4 have entered into SPAs with the City of Houston. Pursuant to the terms of these SPAs, certain commercial tracts within those districts have been annexed into the City of Houston for limited purposes and the City of Houston has imposed a one percent (1%) sales and use tax (but no property tax) within the areas of limited-purpose annexation and will remit one-half of such sales and use tax to MUD 2, MUD 3 and MUD 4 to be used for any lawful district purpose and the City of Houston has agreed to forgo annexation of each such district until December 2037, 2039 and 2037, respectively. The District, along with the other districts in the Service Area, has agreed to utilize SPA revenue from all of the districts in the Service Area to pay joint operating and maintenance costs. The Master District, by agreement with the districts in its Service Area, will manage the expenditure of the SPA revenues. Such revenues are not available to pay the principal of or interest on the Bonds.

Management

Each Participant is governed by a board of directors, consisting of five (5) members, which has control and management of all affairs of such Participant. A directors' election is held within the boundaries of each Participant on the first Saturday in May in even-numbered years. Directors are elected to serve four-year staggered terms. All such directors reside or own property within the Participant on whose board they serve. None of the Participants has any employees. Each Participant contracts for all services required to maintain its operations. The TCEQ exercises continuing supervisory jurisdiction over each Participant, and operation of each Participant's water, wastewater and storm drainage facilities is subject to regulation by several other state and local agencies.

Financial Data

For more information on each Participant, see “APPENDIX A” and “APPENDIX B.”

Future Participants

The Master District has contracted with Participants covering the entire Service Area. The Service Area may be enlarged upon the approval of the Master District. Any contract with a participant outside the existing Service Area and any enlargements in size and capacity of the Master District Facilities is subject to the terms and conditions of the Master District Contract and must not impair the right of the existing Participants to receive services from the Master District, which is established under the Master District Contract for the number of connections reserved to the Participants, except with the consent of the Participants. The Master District agrees that it will only contract with other participants, if any, on substantially the same terms and conditions as are set out in the Master District Contract and the Master District will not contract with other participants without the consent of the Participants unless the new participant is authorized by the electorate to levy ad valorem taxes to pay all charges due under such contract.

MASTER DISTRICT CONTRACT

Each of the Participants has executed the Master District Contract with the Master District and obtained the approval of the Master District Contract from its voters at an election held within its boundaries. The Master District Contract provides that all Participants shall pay a pro rata share of debt service on Contract Revenue Bonds based upon each Participant’s total gross certified assessed valuation as a percentage of the total gross certified assessed valuation in the Service Area. Each Participant is obligated to pay its pro rata share of the annual debt service payments on the Contract Revenue Bonds from the proceeds of its Contract Tax which is not limited as to rate or amount, revenues derived from the operation of its water distribution and wastewater collection system or from any other legally available funds (the “Contract Payment”). The debt service requirements will be calculated to include the charges and expenses of paying agents, registrars and trustees utilized in connection with the Contract Revenue Bonds, the principal, interest and redemption requirements of the Contract Revenue Bonds and all amounts required to establish and maintain funds established under the Bond Resolutions or Indenture. Each Participant’s pro rata share of debt service requirements will be calculated annually by the Master District; however, the levy of a Contract Tax or the securing of other available means of payment for the purpose of paying debt service on the Contract Revenue Bonds is the sole responsibility of each Participant.

The Master District finances the Master District Facilities with proceeds of its Contract Revenue Bonds and owns and operates the Master District Facilities. Each Participant within the Service Area (including the District in its capacity as provider of internal water distribution, wastewater collection, storm drainage, roads, and parks to serve the acreage within the District’s boundaries) owns and operates the internal water distribution, wastewater collection and storm drainage lines within its boundaries. The internal facilities are financed with unlimited tax bonds sold by each of the Participants, including the District. In the event that the Master District fails to meet its obligations to provide Master District Facilities as required by the Service Area, each Participant has the right pursuant to the Master District Contract to design, acquire, construct, or expand the Master District Facilities needed to provide it with service, and convey such Master District Facilities to the Master District in consideration of payment by the Master District of the actual reasonable and necessary capital costs expended by it for such Master District Facilities.

Each Participant is further obligated to pay monthly charges to the Master District for water and sewer services rendered pursuant to the Master District Contract. The monthly charges to be paid by each Participant to the Master District will be used to pay its share of operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. Each Participant’s share of operation and maintenance expenses and reserve requirements is based upon a “unit cost” of operation and maintenance expense and reserve requirements, calculated by the Master District and expressed in terms of “cost per equivalent single-family residential connection.” Each Participant’s monthly payment to the Master District for operation and maintenance expenses will be calculated by multiplying the number of equivalent single-family residential connections reserved to it on the first day of the previous month by the unit cost per equivalent single-family residential connection. The monthly cost per equivalent single-family residential connection being charged by the Master District to the Participant is presently \$33.00. See “THE SYSTEM—Subsidence and Conversion to Surface Water Supply.”

Pursuant to the Master District Contract, each Participant is obligated to establish and maintain rates, fees and charges for its water and wastewater services which, together with taxes levied and funds received from any other lawful sources, are sufficient at all times to pay its operation and maintenance expenses and obligations pursuant to the Master District Contract, including its pro rata share of the Master District's debt service requirements and monthly charges. All sums payable by each Participant to the Master District pursuant to the Master District Contract are to be paid by such Participant without set off, counterclaim, abatement, suspension or diminution. If any Participant fails to pay its share of these costs in a timely manner, the Master District Contract provides that the Master District shall be entitled to cancel, in whole or in part, any reservation or allocation of capacity in the Master District Facilities by such Participant in addition to the Master District's other remedies pursuant to the Master District Contract. As a practical matter, the Participants have no alternative provider of the services rendered by the Master District under the Master District Contract. See "THE BONDS— Source and Security of Payment—Unconditional Obligation to Pay."

Pursuant to the Master District Contract, the District has and will construct certain major thoroughfares in the Service Area for the benefit of all Participants (the "Master District Roads"). The District finances the capital costs of the Master District Roads through the issuance of Contract Revenue Road Bonds. Pursuant to the Master District Contract, no roads, other than Master District Roads, shall be funded by the District, in its capacity as the Master District.

Pursuant to the Master District Contract, the Master District owns, constructed and/or acquired certain parks and recreational facilities for the benefit of all the Participants (the "Master District Park Facilities"). The Master District financed the capital costs of the existing Master District Park Facilities from payments made by each Participant, including the District, in its capacity as a Participant, of its pro rata share of the Master District's existing capital costs of the Master District Park Facilities (the "Park Construction Charge"). The Park Construction Charge was and any Park Construction Charge for future Master District Park Facilities will be computed from time to time on the basis of the total capital costs of providing the Master District Park Facilities for the Service Area minus the payments which have been previously received from the Participants as Park Construction Charges, and dividing the result by the number of projected total connections to be constructed within the Service Area. In no event shall the total Park Construction Charges paid by any Participant under the Master District Contract exceed one percent (1%) of that Participant's certified assessed value.

All Park Construction Charges received by the District shall be deposited into a separate fund to be held in trust for the benefit of the Participants (the "Park Construction Fund") and shall be used solely for the purpose of paying the capital costs of the Master District Park Facilities pursuant to the Master District Contract. Funds in the Park Construction Fund are not available to pay principal and interest on the Bonds.

The Master District Contract also provides for duties of the parties; establishment and maintenance of funds; assignment; arbitration; amendments; force majeure; insurance; and other provisions.

CINCO RANCH DEVELOPMENT

The District is one of four municipal utility districts, previously defined as the Participants, collectively consisting of approximately 2,390 acres and developed as an extension of the Cinco Ranch development, which covers approximately 5,300 adjacent acres and includes approximately 10,000 single-family residential homes.

THE SERVICE AREA

Description and Location

The Master District has a Service Area of approximately 2,390 acres, including the acreage within the District's boundaries and three other municipal utility districts, previously defined as the Participants. The Master District and its Service Area are located approximately 25 miles west of the central downtown business district of the City of Houston. The Service Area is located within Fort Bend County. The Service Area lies wholly within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. Access to the Service Area is currently provided by Interstate Highway 10 West or U.S. Highway 59 South to Texas State Highway 99 (the "Grand Parkway"), a limited access state highway, and by the Westpark Toll Road.

Land Use and Status of Development as of June 1, 2021:

	<u>MUD 1</u>	<u>MUD 2</u>	<u>MUD 3</u>	<u>MUD 4</u>	<u>Total</u>
<u>Development</u>					
Completed Lots	-	1,800	1,719	1,690	5,209
Active Residential Connection	-	1,793	1,718	1,682	5,193
Inactive Residential Connection	-	7	1	8	16
Multi-Family Units (a)	165	-	-	502	667
Commercial (b)					
<u>Land Use</u>					
Developed Single-Family Acreage	-	651	577	566	1,794
Multi-Family Acreage (a)	8	-	-	24	32
Commercial Acreage (b)	-	96	20	42	158
School Sites (b)	-	-	27	14	41
Recreation	-	34	6	4	44
Non-Developable (c)	104	115	46	56	321
Total Acreage	112	896	676	706	2,390

- (a) Includes approximately 24 acres in MUD 4 that have been developed for multi-family purposes where a 316 unit apartment community has been constructed on approximately 14 acres and a 186 unit apartment community has been constructed on approximately 10 acres; and approximately 8 acres in MUD 1 that have been developed for multi-family purposes where a 165 unit apartment community has been constructed.
- (b) See “Commercial/Schools” below.
- (c) Includes greenbelts, public rights-of-way and drainage and utility sites.

Single-Family Residential: Development in the Service Area as of June 1, 2021, is described above. Homes in the Service Area had an average taxable value for the 2020 tax year of \$365,000 to \$440,450.

Multi-Family Residential: A 316 unit apartment community has been constructed on approximately 14 acres, a 186 unit apartment community has been constructed on approximately 10 acres and a 165 unit apartment community has been constructed on approximately 8 acres.

Commercial/Schools: Commercial development within the Service Area consist of approximately 158 acres where the following has been constructed: five facilities for early childhood development/daycare facilities totaling approximately 87,000 square foot, Dental/Orthodontic/medical office building totaling approximately 8,000 square foot, CVS Pharmacy, Walgreens Pharmacy, McDonald’s, two Shell gas stations/convenience stores, Lowe’s Home Improvements, Kroger store and gas station, Academy Sports & Outdoors, Petco, Spec’s Wine & Spirits, Sonic Drive-In, Burger King, Pei Wei restaurant, Bank of America, Regions Bank, Blue Wave car wash, Cinco Auto2 Car Wash and Automotive, Goodyear Tire & Automotive repair, Pengu Swim school, Storit self- storage, Tiger Martial Arts, Willow Fork Fire Department, two facilities providing emergency/urgent care, Second Baptist church, Trinity Baptist church, and 11 commercial “strip” mixed retail facilities totaling approximately 207,000 square foot consisting of mixed retail, service, restaurants, etc. Approximately 41 acres have been developed as public school sites where three elementary schools have been constructed.

Recreation: Approximately 44 acres have been developed for recreational purposes. Recreational amenities within the Service Area include a 6,000 square foot recreation center and three facilities that include a pool, a children’s spray park and a children’s garden. There is also an 8 acre central park connected to the main lake and the recreation center, a greenbelt system and numerous open spaces.

MANAGEMENT OF THE DISTRICT

Board of Directors

The Master District is governed by a Board of Directors consisting of five (5) directors which has control over and management supervision of all affairs of the Master District, including responsibilities related to the Master District in its capacity as the Master District. Directors are elected to four-year terms and elections are held on the first Saturday of May in even numbered years only. Three of the members of the Board resides in the Service Area; however, all of the members own land within the Service Area, subject to a note and deed of trust in favor of Terrabrook Cinco Ranch Southwest, LLC, the developer of the land in the Service Area. Directors have staggered four-year terms. The current members of the Board along with their titles and terms are listed as follows:

<u>Name</u>	<u>Board Title</u>	<u>Term</u>
Jack McClure	President	May 2022
Chester Pleasant	Vice President	May 2022
Larry Wayne Peterson	Secretary	May 2024
Harold R. "Russell" Joseph, Jr.	Assistant Vice President	May 2024
Blair M. Bozoarth	Assistant Secretary	May 2022

District Consultants

The Master District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel/Attorney: The Master District has engaged Allen Boone Humphries Robinson LLP as general counsel to the Master District and as Bond Counsel in connection with the issuance of the Master District's Bonds. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds.

Financial Advisor: Masterson Advisors LLC, serves as the Master District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Auditor: The financial statements of the District as of May 31, 2020, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors (the "Auditor"), as stated in their report appearing herein. The District has engaged BKD, LLP, to audit the District's financial statements for the year ended May 31, 2021. See "APPENDIX B" for a copy of the District's May 31, 2020 financial statements.

Engineer: The Master District's consulting engineer is BGE, Inc.

Tax Appraisal: The Fort Bend Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The Master District has appointed an independent tax assessor/collector to perform the tax collection function. Utility Tax Service, LLC (the "Tax Assessor/Collector") has been employed by the Master District to serve in this capacity.

Bookkeeper: The Master District has contracted with F. Matuska, Inc. for bookkeeping services (the "Bookkeeper").

Utility System Operator: The operator of the Master District's internal water and wastewater system is Inframark, LLC. Inframark, LLC also serves as the operator of the Master District Facilities.

THE SYSTEM

Master District Facilities

Water Supply: The water supply facilities of the Master District currently consist of five water wells, for a total combined capacity of 7,350 gallons per minute (“gpm”) each; 2,800,000 gallons of ground storage capacity; pressure tank capacity of 80,000 gallons; booster pump capacity of 15,500 gpm; and all related appurtenances. In addition, the Master District has entered into an interconnect agreement with Fort Bend County Municipal Utility District No. 142. The interconnect is located at the intersection of Fry Road and Holton Gripp Drive. The Master District has also entered into an interconnect agreement with Fort Bend County Municipal Utility District Nos. 34 and 35. The interconnect is proposed to be on Katy-Gaston Road near the intersection with Fry Road. The major components of the Master District’s water supply system will serve approximately 6,688 equivalent single-family connections. According to the Operations Report dated May 2021, the Master District has a current reserved capacity of 7,942 connections (including 1,817 irrigation reservations) and the Cinco Southwest MUDs currently have 5,538 active connections (including 2 connections allocated to schools, which are located outside the boundaries of the District).

In addition, the Master District has constructed a regional reclaimed water system as part of the Master District Facilities. The current plan for the regional reclaimed water system is to construct the major distribution facilities, make-up irrigation well, ground storage tanks, booster pumps and hydro-pneumatic tanks to serve 298 acres of street right-of-way, adjacent greenbelts and community parks.

Wastewater Treatment: The wastewater treatment facilities of the Master District consist of one plant with a total capacity of 1,900,000 gallons per day (“gpd”). Current wastewater treatment capacity at the Master District’s plant will serve 7,600 equivalent single-family connections. According to the Operations Report dated May 2021, the Master District has a current reserved capacity of 7,942 connections (including 1,817 irrigation reservations) and the Cinco Southwest MUDs currently have 5,538 active connections (including 2 connections allocated to schools, which are located outside the boundaries of the District).

Major Water Distribution and Wastewater Collection: Major water distribution facilities consist of waterlines ranging in size from 12-inch to 30-inch, generally located within the rights-of-way. These water distribution facilities supply water from the Master Water Supply Facilities to the Participants’ facilities.

The wastewater collection facilities include sanitary sewer lines ranging in size from 10-inch to 48-inch, generally located within the rights-of-way of collector roads and the below listed major thoroughfares. These collection lines collect waste from the Participants and transport it to the Master Treatment Facilities.

The Master District currently has two lift stations outside of the Cinco Southwest Wastewater Treatment Plant. Both lift stations are located within the Service Area and are currently operable and serving Service Area residents.

Road System: In order to provide access from Interstate Highway 10 and the Grand Parkway, the Master District has extended the following major thoroughfares and created a collector thoroughfare: Cinco Ranch Boulevard, South Fry Road, Spring Green Boulevard and Cinco Terrace (collector). The major thoroughfares are 4-lane divided roads and the collector varies from 4-lane divided to 2-lane two-way traffic.

Master Drainage: The Master District also provides the Service Area with drainage facilities designed for a 100-year storm event. These facilities include drainage channels, detention ponds, water quality ponds, conveyance storm sewer, and reinforced outfalls. The existing facilities include the following: Central Lake (detention pond), Ditch East, Ditch South, Ditch South East, Ditch North, Ditch North East, Ditch West, Water Quality/Detention Pond 1, Water Quality/Detention Pond 4, and Ericson Detention Pond.

Master Park Facilities: The Master District provides an interconnect grade separated trail system connecting community parks and recreation facilities. This system extends along and utilizes the drainage corridors as linear parks connecting multiple neighborhood parks.

Internal Water Distribution, Wastewater Collection, Storm Drainage Facilities and Road Facilities

Internal water distribution, wastewater collection, storm and certain road drainage facilities have been constructed by MUD 2 to serve 1,800 single-family residential lots, by MUD 3 to serve 1,719 lots and by MUD 4 to serve 1,690 lots. In addition, such utilities are complete for approximately 144 acres of commercial development, approximately 32 acres of multi-family development and approximately 41 acres of school sites.

Flood Protection and Drainage

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded and a number of neighborhoods in the Greater Houston Area that are above the 100-year flood plain have flooded multiple times in the past several years.

The Service Area is located within the Barker Reservoir Watershed. No portion of the District is located within the 100-year flood plain or the Barker Reservoir flood pool.

Atlas 14

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

Subsidence and Conversion to Surface Water Supply

The majority of the Service Area is within the boundaries of the Fort Bend Subsidence District (the “Subsidence District”), which regulates groundwater withdrawal. The Master District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District. 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 areas served by the Master District. In 2005, the Texas legislature created the North Fort Bend Water Authority (the “Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Fort Bend County (including the Service Area) and a small portion of Harris 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 Master District and each Participant are included within 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 imposed on the Master District for groundwater pumped by the Master District), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the Master District, to convert from groundwater to surface water. The Authority currently charges the Master District, and other major groundwater users a fee per 1,000 gallons based on the amount of groundwater pumped, and a fee per 1,000 gallons based on the amount, if any, of surface water received 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 2025 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 to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority’s GRP, beginning in the year 2014; and (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority’s GRP, beginning in the year 2025. If the Authority fails to comply with the above Subsidence District regulations, the Authority is subject to a substantial disincentive fee penalty, currently \$6.50 per 1,000 gallons (“Disincentive Fees”), imposed by the Subsidence District for any groundwater withdrawn in excess of 40% of the total annual 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 Master District. If the Master District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the Master District.

The Master 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 the Participants through higher water rates. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the Master 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.

Regulation

Construction and operation of the Master District Facilities as they now exist or as they may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District, in its capacity as the Master District and in its capacity as a provider of internal utility services. Discharge of treated sewage into Texas waters, if any, is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Fort Bend County Drainage District. Fort Bend County and the City of Houston also exercise regulatory jurisdiction over the Master District Facilities.

According to the Engineer, the Master District's Facilities have been designed and the corresponding plans prepared in accordance with accepted engineering practices and specifications and the approval and permitting requirements of the TCEQ, the Texas Department of Health, Fort Bend County and the City of Houston, where applicable. Construction of the District's facilities is subject to inspection by the TCEQ, the City of Houston and Fort Bend County. Each of the aforementioned agencies exercises continuing jurisdiction over the District's facilities.

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Water and Wastewater Operations

The following statement sets forth in condensed form the General Operating Fund for the Master District as derived from the District's audited financial statements for the fiscal years ended May 31, 2017 through May 31, 2020, as summarized by the Auditor and an unaudited summary for the fiscal year ended May 31, 2021, prepared by the Bookkeeper. Such figures are included for informational purposes only. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX B" for further and complete information.

	6/1/2020 thru 5/31/2021 Unaudited	Fiscal Year Ended			
		5/31/2020	5/31/2019	5/31/2018	5/31/2017
Revenues:					
Capacity Charges	\$ 2,865,951	\$ 2,857,404	\$ 3,015,735	\$ 3,035,496	\$ 3,029,451
Water Sewer Charge	182,345	205,698	198,265	206,061	197,848
Surface Water Conversion	4,069,021	4,100,214	3,736,207	3,489,933	3,101,451
Sales Tax Rebates	461,269	456,271	447,422	485,057	401,032
Tap Connection and Inspection	-	-	-	-	25,445
Penalty and Interest	5,989	-	-	-	523
Miscellaneous	-	150,590	97,159	43,558	15,968
Total Revenue	\$ 7,584,575	\$ 7,770,177	\$ 7,494,788	\$ 7,260,105	\$ 6,771,718
Expenditures:					
Professional Fees	\$ 280,927	\$ 247,668	\$ 208,060	\$ 194,187	\$ 204,435
Purchased or Contracted Services	406,208	1,902,871	2,493,708	2,785,596	2,607,959
Regional Water Fee	3,921,059	2,568,018	1,300,271	937,398	914,673
Tap Connections	-	-	-	-	25,150
Utility Services	355,648	376,096	363,827	367,116	380,086
Repairs and Maintenance	2,268,419	1,663,317	1,462,316	1,742,410	1,815,106
Capital Outlay	104,021	661,398	7,600	286,457	11,244
Miscellaneous	112,517	389,835	369,708	305,082	196,056
Total Expenditures	\$ 7,448,799	\$ 7,809,203	\$ 6,205,490	\$ 6,618,246	\$ 6,154,709
NET REVENUES	\$ 135,776	\$ (39,026)	\$ 1,289,298	\$ 641,859	\$ 617,009
Transfers In (Out)	\$ -	\$ -	\$ -	\$ -	\$ -
Developer Advances	\$ -	\$ -	\$ -	\$ -	\$ -
General Operating Fund					
Balance (Beginning of Year)	\$ 6,329,688	\$ 6,368,714	\$ 5,079,416	\$ 4,437,557	\$ 3,820,548
General Operating Fund					
Balance (End of Year)	\$ 6,465,464	\$ 6,329,688	\$ 6,368,714	\$ 5,079,416	\$ 4,437,557

**FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS
(UNAUDITED)**

Direct Debt (includes the Remaining Outstanding Bonds and the Bonds).....	\$114,160,000	
Estimated Overlapping Debt	<u>175,190,143</u>	(a)
Total Direct and Overlapping Debt.....	\$289,350,143	
 2021 Gross Assessed Valuation	 \$2,399,379,891	 (b)
 Direct Debt (including the Remaining Outstanding Bonds and the Bonds) as a % of 2021 Gross Assessed Valuation	 4.76%	
 Overlapping and Direct Debt (including the Remaining Outstanding Bonds and the Bonds) as a % of 2021 Gross Assessed Valuation	 12.03%	
 Water, Sewer and Drainage Reserve Fund Balance as of July 1, 2021	 \$4,870,772	
Road Reserve Fund Balance as of July 1, 2021.....	<u>711,044</u>	
Total Reserve Funds Available	\$5,581,816	(c)
 Water, Sewer and Drainage Debt Service Fund Balance as of July 1, 2021	 \$8,490,105	(d)
Road Debt Service Fund Balance as of July 1, 2021.....	<u>961,708</u>	(d)
Total Debt Service Funds Available	\$9,451,813	
Total Available for Debt Service	\$15,033,629	
 Master District Operating Funds Available as of July 1, 2021	 \$5,551,707	
Water, Sewer and Drainage Capital Projects Funds Available as of July 1, 2021	\$58,898	
Road Capital Projects Funds Available as of July 1, 2021	\$152,897	(e)
 Maximum Annual Debt Service Requirements (2022), including the Bonds	 \$10,378,819	(f)
Average Annual Debt Service Requirements (2022-2038), including the Bonds	\$7,834,287	(f)

- (a) See “FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Outstanding Bonds” and “—Estimated Overlapping Debt.”
- (b) The Appraisal District has certified \$2,394,966,521 of gross taxable value and an additional \$4,413,370 remains uncertified and subject to review and downward revision prior to certification. See “TAXING PROCEDURES.”
- (c) \$330,225.51 and \$62,181.20 in water, sewer and drainage reserve funds and road reserve funds, respectively, will be applied to the issuance of the related series of Bonds.
- (d) Although all of the Contract Revenue Bonds are payable from payments made by each Participant on parity, a pro rata portion of the Participants’ Contract Payments will be allocated to the Water, Sewer and Drainage Bonds, such as the Series 2021A Refunding Bonds, and a pro rata portion will be allocated to the Road Bonds, such as the Series 2021A Road Refunding Bonds. See “FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Outstanding Bonds/” The Road Debt Service Fund is not pledged to the Water, Sewer and Drainage Bonds nor are funds in the Water, Sewer and Drainage Debt Service Fund pledged to the Road Bonds, such as the Series 2021A Road Refunding Bonds.
- (e) \$149,520.83 of surplus capital project funds will be applied to the Series 2021A Road Refunding Bonds.
- (f) See “—Debt Service Requirements” herein, “THE BONDS—Source and Security of Payment—Unconditional Obligation to Pay” and “MASTER DISTRICT CONTRACT.”

Participants' Appraised Value as a Percentage of all Participants

<u>Participant</u>	2019	% of	2020	% of	2021	% of
	Certified Gross Assessed Valuation (a)	2019 Gross Assessed Valuation (a)	Certified Gross Assessed Valuation (a)	2020 Gross Assessed Valuation (a)	Gross Assessed Valuation (b)	2021 Gross Assessed Valuation (b)
MUD 1	\$ 21,557,539	0.94%	\$ 22,935,973	0.99%	\$ 25,958,719	1.08%
MUD 2	795,105,139	34.68%	812,259,648	35.09%	834,642,532	34.79%
MUD 3	681,854,763	29.74%	671,489,448	29.01%	705,884,006	29.42%
MUD 4	793,850,446	34.63%	808,193,558	34.91%	832,894,634	34.71%
Total of Service Area	\$ 2,292,367,887	100.00%	\$ 2,314,878,627	100.00%	\$ 2,399,379,891	100.00%

(a) As certified by the Fort Bend Central Appraisal District ("the Appraisal District").

(b) The Appraisal District has certified \$2,394,966,521 of gross taxable value and an additional \$4,413,370 remains uncertified and subject to review and downward revision prior to certification. See "TAXING PROCEDURES."

Outstanding Bonds

<u>Series</u>	<u>Original Principal Amount</u>	<u>Principal Currently Outstanding</u>	<u>Less: Refunded Bonds</u>	<u>Remaining Outstanding Bonds</u>
2007	\$ 6,250,000	\$ -	\$ -	\$ -
2008	8,485,000	-	-	-
2008A	8,485,000	-	-	-
2009	8,120,000	-	-	-
2009A	6,690,000	-	-	-
2010	7,740,000	-	-	-
2010A	8,170,000	-	-	-
2010B	13,680,000	-	-	-
2011 (a)	9,650,000	-	-	-
2011	16,040,000	-	-	-
2012 (a)	9,390,000	720,000	360,000	360,000
2012	16,075,000	1,860,000	1,240,000	620,000
2013 (a)	2,385,000	1,710,000	1,615,000	95,000
2013	26,660,000	19,170,000	18,105,000	1,065,000
2014	14,840,000	11,120,000	-	11,120,000
2015 (b)	21,150,000	17,950,000	-	17,950,000
2016 (b)	18,370,000	17,085,000	-	17,085,000
2017 (b)	8,825,000	8,660,000	-	8,660,000
2019 (b)	4,840,000	4,780,000	-	4,780,000
2019A (b)	10,270,000	10,185,000	-	10,185,000
2019 (c)	11,970,000	11,870,000	-	11,870,000
2020 (b)	9,330,000	9,330,000	-	9,330,000
Total	\$ 247,415,000	\$ 114,440,000	\$ 21,320,000	\$ 93,120,000
The Bonds				21,040,000
The Bonds and Remaining Outstanding Bonds				\$ 114,160,000

(a) Contract Revenue Road Bonds.

(b) Contract Revenue Refunding Bonds.

(c) Contract Revenue Road Refunding Bonds.

Debt Service Requirements

The following sets forth the actual debt service requirements for the Outstanding Bonds less the debt service on the Refunded Bonds (\$21,320,000 principal amount), plus the debt service requirements on the Bonds.

Year	Outstanding	(a)	Less: Refunded Bonds Debt Service	Plus: 2021 Debt Service		Plus: 2021A Debt Service		Total Debt Service
	Bonds			Contract Revenue Refunding		Contract Revenue Road Refunding		
	Debt Service Requirements			Principal	Interest	Principal	Interest	
2021	\$ 8,891,801.25		\$ 431,448.13	\$ 190,000	\$ 116,893.33	\$ 15,000	\$ 11,317.78	\$ 8,793,564.23
2022	10,643,365.00		3,002,896.26	1,760,000	472,500.00	460,000	45,850.00	10,378,818.74
2023	10,467,675.00		2,580,006.26	1,760,000	419,700.00	100,000	32,050.00	10,199,418.74
2024	10,307,987.50		1,908,218.76	1,145,000	366,900.00	100,000	29,050.00	10,040,718.74
2025	10,131,025.00		1,869,806.26	1,140,000	332,550.00	95,000	26,050.00	9,854,818.74
2026	9,926,231.26		1,823,287.50	1,140,000	298,350.00	95,000	23,200.00	9,659,493.76
2027	9,722,043.76		1,776,650.00	1,135,000	252,750.00	95,000	20,350.00	9,448,493.76
2028	9,531,112.50		1,729,893.76	1,120,000	218,700.00	95,000	17,500.00	9,252,418.74
2029	9,330,087.50		1,683,018.76	1,100,000	196,300.00	90,000	15,600.00	9,048,968.74
2030	9,124,762.50		1,636,143.76	1,080,000	174,300.00	90,000	13,800.00	8,846,718.74
2031	8,901,256.26		1,586,487.50	1,055,000	152,700.00	85,000	12,000.00	8,619,468.76
2032	8,687,393.76		1,535,381.26	1,030,000	131,600.00	85,000	10,300.00	8,408,912.50
2033	8,452,800.00		1,484,037.50	1,000,000	111,000.00	80,000	8,600.00	8,168,362.50
2034	7,794,425.00		1,431,362.50	970,000	91,000.00	75,000	7,000.00	7,506,062.50
2035	4,932,837.50		1,378,687.50	945,000	71,600.00	75,000	5,500.00	4,651,250.00
2036	4,412,231.26		1,324,681.26	910,000	52,700.00	70,000	4,000.00	4,124,250.00
2037	2,835,425.00		1,270,675.00	880,000	34,500.00	65,000	2,600.00	2,546,850.00
2038	2,714,987.50		1,215,337.50	845,000	16,900.00	65,000	1,300.00	2,427,850.00
Total	\$146,807,447.55		\$29,668,019.47	\$ 19,205,000	\$ 3,510,943.33	\$ 1,835,000	\$ 286,067.78	\$141,976,439.19

(a) Excludes the June 1, 2021 debt service payment of \$1,931,801.

Average Annual Debt Service Requirements (2022-2038)	\$7,834,287
Maximum Annual Debt Service Requirement (2022)	\$10,378,819

Investments of the District

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

Estimated Overlapping Debt

The following table of entities located within the Service Area indicates the outstanding debt payable from ad valorem taxes of governmental entities within which the Service Area is located and the estimated percentages and amounts of such indebtedness attributable to property within the Service Area. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the Service Area are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service, and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Fort Bend County.....	\$ 633,879,567	6/30/2021	3.080%	\$ 19,523,491
Fort Bend County Drainage District....	25,405,000	6/30/2021	3.080%	782,474
Katy Independent School District.....	1,806,185,631	6/30/2021	5.160%	93,199,179
MUD 2.....	22,100,000	6/30/2021	100.000%	22,100,000
MUD 3.....	18,500,000	6/30/2021	100.000%	18,500,000
MUD 4.....	21,085,000	6/30/2021	100.000%	21,085,000
Total Estimated Overlapping Debt.....				\$ 175,190,143
The District's Total Direct Debt (a).....				114,160,000
Total Direct and Estimated Overlapping Debt.....				\$ 289,350,143
Direct and Estimated Overlapping Debt as a Percentage of:				
2021 Gross Assessed Valuation of \$2,399,379,891.....				12.06%

(a) The Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes

Property within each Participant is subject to taxation by several taxing authorities in addition to the taxes levied by each Participant. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including each Participant, having the power to tax the property. Each Participant’s tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of each Participant, including each Participant’s pro rata share of the Bonds, and other taxing authorities, certain taxing jurisdictions, including each Participant, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is a summary of taxes levied for the 2020 tax year by all overlapping entities in the Service Area and the highest 2020 tax rate adopted by the Participants. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Fort Bend County (includes Drainage District).....	\$ 0.45321
Fort Bend Emergency Services District (a).....	0.10000
Katy Independent School District.....	1.38880
Total Overlapping Tax Rate.....	\$ 1.94201
The Participants (b).....	0.92000
Total Tax Rate.....	\$ 2.86201

- (a) Represents the highest 2020 tax rate for the emergency services districts that serve the area.
- (b) Represents the highest tax rate levied by the Participants (MUD 3) and includes a \$0.48 per \$100 assessed valuation Contract Tax. See “APPENDIX A.”

TAX DATA

Contract Tax

The District, in its capacity as the Master District, has the statutory authority and the authorization under the Master Contract to issue Contract Revenue Bonds. Each Participant’s Contract Payment will be determined by dividing each Participant’s gross certified assessed value by the total of the Service Area’s gross certified assessed valuation. The Master District Contract obligates each Participant to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of an annual unlimited Contract Tax, from revenues derived from the operation of its water distribution and wastewater collection system, or from any other legally available funds. The debt service requirement shall include principal, interest and redemption requirements on the Contract Revenue Bonds, Paying Agent/Registrar fees, and all amounts necessary to establish and maintain funds established under the Bond Resolutions and the Indenture. The Contract Payments assessed by the Master District to each Participant for the 2020 tax year are equivalent to a Contract Tax of approximately \$0.445 per \$100 of total gross assessed valuation of the Service Area. See “THE PARTICIPANTS—Historical Contract Payment Collections” in this section.

Tax Roll Information

The Service Area’s assessed value as of January 1 of each year will be used by the Master District in establishing the Contract Payment and recommending the Contract Tax rate to the Participants. See “TAXING PROCEDURES—Valuation of Property for Taxation.” The following represents the 2016 through 2021 Gross Assessed Valuations of the Service Area. Historical tax roll information concerning each Participant is included in “APPENDIX A” herein.

Gross Assessed Valuation (a)	<u>MUD 1</u>	<u>MUD 2</u>	<u>MUD 3</u>	<u>MUD 4</u>	Service Area
2016	\$ 19,007,616	\$ 778,853,302	\$ 689,062,560	\$ 782,939,664	\$ 2,269,863,142
2017	17,553,160	773,850,840	671,564,010	783,344,383	2,246,312,393
2018	20,339,849	784,954,764	669,651,960	793,597,666	2,268,544,239
2019	21,557,539	795,105,139	681,854,763	793,850,446	2,292,367,887
2020	22,935,973	812,259,648	671,489,448	808,193,558	2,314,878,627
2021 (b)	25,958,719	834,642,532	705,884,006	832,894,634	2,399,379,891

(a) As certified by the Fort Bend Central Appraisal District (the “Appraisal District”).

(b) The Appraisal District has certified \$2,394,966,521 of gross taxable value and an additional \$4,413,370 remains uncertified and subject to review and downward revision prior to certification. See “TAXING PROCEDURES.”

Historical Contract Payment Collections

Annual Contract Payments are due to the Master District in equal payments on March 1 and September 1 of each year. The 2020 Contract Tax Payments from the Participants are due in equal payments on March 1, 2021 and September 1, 2021. See “APPENDIX A” for a breakdown of each Participant’s historical tax rate levy.

2016 Contract Payment Collection Rate	100.00%
2017 Contract Payment Collection Rate	100.00%
2018 Contract Payment Collection Rate	100.00%
2019 Contract Payment Collection Rate	100.00%
2020 Contract Pay Collection Rate	50.00%(a)

(a) Second Contract Tax Payments for 2020 will be due to the Master District from Participants on September 1, 2021.

Contract Payment Allocation Data

Participant	2019	% of	2020	% of	2021	% of
	Certified	2019	Certified	2020	2021	2021
	Gross	Gross	Gross	Gross	Gross	Gross
	Assessed	Assessed	Assessed	Assessed	Assessed	Assessed
	Valuation (a)	Valuation (a)	Valuation (a)	Valuation (a)	Valuation (b)	Valuation (b)
MUD 1	\$ 21,557,539	0.94%	\$ 22,935,973	0.99%	\$ 25,958,719	1.08%
MUD 2	795,105,139	34.68%	812,259,648	35.09%	834,642,532	34.79%
MUD 3	681,854,763	29.74%	671,489,448	29.01%	705,884,006	29.42%
MUD 4	793,850,446	34.63%	808,193,558	34.91%	832,894,634	34.71%
Total of Service Area	\$ 2,292,367,887	100.00%	\$ 2,314,878,627	100.00%	\$ 2,399,379,891	100.00%

- (a) As certified by the Fort Bend Central Appraisal District (the “Appraisal District”).
- (b) The Appraisal District has certified \$2,394,966,521 of gross taxable value and an additional \$4,413,370 remains uncertified and subject to review and downward revision prior to certification. See “TAXING PROCEDURES.”

Tax Adequacy for Debt Service

The Contract Tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the Service Area’s tax base occurred beyond the 2021 Gross Assessed Valuation of \$2,399,379,891. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the Service Area, collection of ninety-five percent (95%) of Contract Payments, the sale of no additional bonds by the Master District, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED) —Debt Service Requirements.”

Average Annual Debt Service Requirement (2022-2038).....	\$7,834,287
\$0.35 Contract Tax Rate on 2021 Gross Assessed Valuation	\$7,977,938
Maximum Annual Debt Service Requirement (2022).....	\$10,378,819
\$0.46 Contract Tax Rate on 2021 Gross Assessed Valuation	\$10,485,290

TAXING PROCEDURES

Authority to Levy Taxes

Each Participant, including the Master District in its capacity as a Participant, is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within its boundaries in an amount sufficient to pay the principal of and interest on the outstanding bonds issued by such Participant, Contract Payments on the Outstanding Bonds that the Master District has issued or may hereafter issue, and to pay the expenses of assessing and collecting such taxes. Under Texas law, the board of directors of each Participant may also levy and collect an annual ad valorem tax for the operation and maintenance of such Participant. See “INVESTMENT CONSIDERATIONS—Future Debt” and “THE PARTICIPANTS—Contract Tax—Debt Service Tax—Maintenance Taxes.”

Property Tax Code and County-Wide Appraisal District

Title I of the Texas Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the Participants. 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 Appraisal District has the responsibility for appraising property for all taxing units within Fort Bend County, including the Participants. Such appraisal values are subject to review and change by the Fort Bend Central Appraisal Review Board (the “Appraisal Review Board”).

Property Subject to Taxation by the Participants

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 a Participant are subject to taxation by a Participant. 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, a Participant 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. A Participant 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. A Participant is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair a Participant's obligation to pay tax supported debt incurred prior to adoption of the exemption by a Participant. Furthermore, a Participant 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 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.

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, a Participant 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 a Participant 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 and the other Participants have taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Fort Bend County may designate all or part of the area within the Service Area as a reinvestment zone. The City of Houston also may designate property within its boundaries or its extraterritorial jurisdiction ("ETJ") as a reinvestment zone. Thereafter, Fort Bend County, a Participant, and the City of Houston (after annexation of a Participant(s)) under certain circumstances, 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 any Participant participating in the abatement agreement, for a period of up to ten (10) years, all or any part of any increase in the appraised value of property covered by the agreement over its appraised value 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 a Participant 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 a Participant 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.

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 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 Participant 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. Each Participant, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the Participant or an estimate of any new property or improvements within the Participant. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the Participant, it cannot be used for establishing a tax rate within the Participant 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.

Participant and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the Participants) 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 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

Each Participant 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 of each Participant, after the legally required notice has been given to owners of property within such Participant, based upon: a) the valuation of property within such Participant 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 Participant and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the Participant and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The 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 Participant, which may be rejected by taxing units. Each Participant's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Tax Payment Installments

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 or any Participant if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

Additional Penalties

Each Participant has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, each Participant can establish 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 15 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

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

Participant's Rights in the Event of Tax Delinquencies

Taxes levied by each Participant 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 each Participant, having power to tax the property. The Participant's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Overlapping Taxes." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of a district is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, a Participant may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the limitations set forth under "Levy and Collection of Taxes". In filing a suit to foreclose a tax lien on real property, a Participant must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, and by taxpayer redemption rights. A taxpayer may redeem commercial property within six months and all other types of property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "INVESTMENT CONSIDERATIONS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations solely of the Master District and are not obligations of the State of Texas, Fort Bend County, the City of Houston, any of the Participants except the Master District, or any entity other than the Master District. The Bonds are payable solely from and to the extent of Contract Payments received by the Master District from the Participants pursuant to the Master District Contract. The obligations of the Participants to make Contract Payments are several, not joint, obligations pro-rated among the Participants based upon the proportion of the gross assessed valuation of property within their respective boundaries to the total gross assessed valuation of the Service Area as described herein. No Participant is obligated to pay the Contract Payments allocated to any other Participant. Consequently, the ability of the Master District to make timely payment of the principal of and interest on the Contract Revenue Bonds would be impaired if any Participant became unable or unwilling to timely make its Contract Payments in full, except to the extent the Master District had reserves sufficient to make up for the deficiency. The ability of each Participant to make its Contract Payments depends on its ability to collect annual ad valorem taxes (without legal limit as to rate or amount) levied on taxable property within its boundaries sufficient to pay both debt service requirements on its direct unlimited tax bonds, if any, and to make its Contract Payments. Taxes collected by each Participant are allocated between Contract Payments which are the source of payment of the Bonds and debt service on such Participant's direct unlimited tax bonds without priority of taxes levied for one purpose over taxes levied for any other purpose. The collection by each Participant of delinquent taxes owed to it and the enforcement of each Participant's obligation to collect sufficient taxes, if required, may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the Service Area will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property. See "Registered Owners' Remedies" below and "THE BONDS—Source and Security of Payment."

Infectious Disease Outlook (COVID-19)

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State of Texas (the "State") because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

Over the ensuing year, COVID-19 negatively affected commerce, travel and businesses locally and globally, and negatively affected economic growth worldwide and within the State. Following the widespread release and distribution of various COVID-19 vaccines in 2021 and a decrease in active COVID-19 cases generally in the United States, state governments (including Texas) have started to lift business and social limitations associated with COVID-19. Beginning in March 2021, the Governor issued various executive orders, which, among other things, rescinded and superseded prior executive orders and provide that there are currently no COVID-19 related operating limits for any business or other establishment except in counties with an "area with high hospitalizations" where a county judge may impose COVID-19 related mitigation strategies. Fort Bend County is not currently an "area with high hospitalizations." The Governor retains the right to impose additional restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this OFFICIAL STATEMENT.

With the decrease in the number of active COVID-19 cases and the easing or removal of associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19. The Service Area has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

Recent Extreme Weather Events; Hurricane Harvey

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

According to the Operator and the Engineer, the Master District's water, wastewater and drainage system did not sustain any material damage and there was no interruption of water and sewer service during the Hurricane Harvey event. Further, according to the Operator and the Engineer, no homes or other improvements within the Service Area experienced structural flooding or other material damage as a result of Hurricane Harvey.

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.

Debt Burden on Property within the Participants

The Master District expects that each Participant (including the Master District in its capacity as a Participant) will derive funds to make its Contract Payments to the Master District from the collection of a Contract Tax. In addition to the annual levy of a tax to make its annual Contract Payment, each Participant (including the Master District in its capacity as a Participant) is authorized, and expected, to levy a tax on property within its boundaries (without legal limit as to rate or amount) to pay annual principal and interest on bonds issued by the Participant and to pay its operations and maintenance expenses. See "THE PARTICIPANTS."

The Master District anticipates taxable property values of the Service Area will maintain sufficient value to meet its debt service requirements on the Bonds; however, the Master District can make no representation that the taxable property values in the Service Area will maintain a value sufficient to support the aforementioned Contract Payments or to justify continued payment of taxes by property owners. See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)," "TAX DATA—Tax Adequacy for Debt Service," and "APPENDIX A."

The TCEQ rules permit the issuance of bonds by a Participant based, to a certain extent, upon projections of growth in ad valorem taxable value within the boundaries of the Participant. In the event those growth projections are not realized, the Participant's tax rate to pay debt service on its bonds may increase in future years. The Master District has no control over such tax rate. Each Participant has issued bonds to finance the internal water, wastewater and storm drainage facilities, the internal roads, the internal parks and each Participant's pro rata share of Master District Park Facilities. See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Estimated Overlapping Debt," and "APPENDIX A" for information on each Participant's debt and taxes.

The composite tax rate to which property in each Participant is subject may be higher than the composite tax rate of property within other competing subdivisions. To the extent that such composite tax rate is not competitive, the growth of property tax values in each Participant and the investment quality or security of the Bonds could be adversely affected. The Master District has no control over such composite tax rate. See "Competition" in this section and "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Overlapping Taxes."

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

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

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

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

The District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District has applied for coverage under the MS4 Permit and is awaiting final approval from the TCEQ. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required plans, as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Costs associated with these compliance activities could be substantial in the future.

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

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

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

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

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

Tax Collections Limitations and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by each Participant's inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by each Participant constitutes a lien in favor of the Participant on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. Each Participant's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the Participant and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the Participant available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "TAX DATA—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within a Participant pursuant to the Federal Bankruptcy Code could stay any attempt by the Participant to collect delinquent ad valorem taxes assessed 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.

Registered Owners' Remedies

Remedies available to Registered Owners of Bonds in the event of a default by the Master District in one or more of its obligations under the Bond Resolutions is limited and generally must be exercised by the Trustee. See "THE INDENTURE OF TRUST—Remedies." Although state law and the Bond Resolutions provides that the Registered Owners may obtain a writ of mandamus requiring performance of such obligations, such remedy must be exercised upon each default and may prove time-consuming, costly and difficult to enforce. The Bond Resolutions do not provide for acceleration of maturity of the Bonds, or any other additional remedy in the event of a default by the Master District and consequently, the remedy of mandamus may have to be relied upon from year-to-year. The Bonds are not secured by an interest in the Master District Facilities or any other property of the Master District. No judgment against the Master District is enforceable by execution of a levy against the Master District's public purpose property. Further, the Registered Owners themselves cannot foreclose on property within the Master District or the Service Area or sell property within the Master District or the Service Area in order to pay the principal of and interest on the Bonds. Statutory language authorizing local governments such as the Master 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 Master District in its covenants in the Bond Resolutions may not be reduced to a judgment for money damages. See "Bankruptcy Limitation to Registered Owners' Rights" below.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the Participants, including the Master District. Texas law requires municipal utility districts such as the Participants to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. Notwithstanding noncompliance by a district with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning District relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

Pursuant to the Master District Contract, the Master District may sell Contract Revenue Bonds in a principal amount not to exceed \$562,000,000 to provide Master District Facilities and for refunding purposes, which includes \$455,000,000 principal amount of Contract Revenue Bonds authorized for water, sewer and drainage facilities and \$107,000,000 principal amount of Contract Revenue Bonds authorized for roads. After issuance of the Bonds, the District will have \$305,417,029.93 principal amount of Contract Revenue Bonds for water, sewer and drainage facilities and \$85,180,248.56 principal amount of Contract Revenue Bonds for roads authorized but unissued. Any future Contract Revenue Bonds will be on a parity with the Bonds.

The Master District does not currently owe any funds to any developer for constructing water, sewer and drainage Master Facilities or roads; however, the Master District anticipates that it will issue additional Contract Revenue Bonds in the future. Future issues of Contract Revenue Bonds are intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the Service Area (assuming projected increases in the value of taxable property made at the time of issuance of bonds are accurate). The Master District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds may be subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds.

The District, as a Participant, has the right to issue obligations other than the Contract Revenue Bonds, including unlimited tax bonds for the purpose of financing internal water, wastewater and storm drainage facilities, internal roads and parks and its pro rata share of regional parks, tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. The voters of the District have authorized the District to issue \$20,000,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities, \$10,000,000 principal amount of unlimited tax bonds for roads, and \$5,000,000 principal amount of unlimited tax bonds for parks. Such bonds would be issued by the District in its capacity as a Participant and not as the Master District. To date, the District, in its capacity as a Participant, has not incurred any debt. All of such authorized amounts are unissued. See “THE BONDS—Issuance of Additional Contract Revenue Bonds.”

Marketability of the Bonds

The District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price 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 more generally bought, sold or traded in the secondary market.

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has applied for a bond insurance policy (the “Policy”) to guarantee the scheduled payment of principal and interest on the Bonds. If the Policy is issued, investors should be aware of the following investment considerations:

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.

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

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

Continuing Compliance with Certain Covenants

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

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 income tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

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. Moody's Investors Service ("Moody's") has assigned an underlying credit rating of "A2" to the Bonds without regard to credit enhancement. An explanation of the rating may be obtained from Moody's.

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 or Moody's, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

Concurrently with the issuance of the Bonds, 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 C 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 March 31, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$477.7 million, \$156.4 million and \$321.3 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.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due or upon early redemption, the principal of, interest on and related call premium requirements, if any, of the Refunded Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes and (c) verification of the compliance with City of Houston Ordinance No. 97-416.

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

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified 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 and are secured by the Indenture which pledges to the Trustee the Pledged Revenues, as defined in the Indenture 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 Allen Boone Humphries Robinson LLP, 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 income 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 “PLAN OF FINANCING—Defeasance of Refunded Bonds,” “THE BONDS,” “THE INDENTURE OF TRUST,” “MASTER DISTRICT CONTRACT,” “TAXING PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarizes matters of law and 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 or the Developer 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 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 Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the PRELIMINARY OFFICIAL STATEMENT.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that 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 Underwriter with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriter, 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 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 Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering 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 Underwriter 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolutions, 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").

Annual Reports

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

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "SELECTED FINANCIAL INFORMATION (UNAUDITED);" "THE BONDS—Issuance of Additional Contract Revenue Bonds;" "THE SERVICE AREA;" "THE SYSTEM—Master District Facilities—Water and Wastewater Operations;" "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED);" "TAX DATA;" "APPENDIX A" (Certain Financial Information Regarding the Participants) and "APPENDIX B" (Independent Auditor's Reports and Financial Statements of the District, MUD 2, MUD 3, and MUD 4, including Supplemental Schedules). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2021. The District will provide the updated information to the MSRB through its Electronic Municipal Market Access ("EMMA") system.

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

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

Specified Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax 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 a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the 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 within the meaning of the Rule, 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 make any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from MSRB

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

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders 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 to 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 or the business of the Developer, 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 Bonds and the Remaining 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 holders 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 Underwriters 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 previous continuing disclosure agreements, with the following exception.

On September 17, 2012, Standard and Poor's Rating Services upgraded the District's underlying rating from BBB- to BBB. The District filed an event notice for such rating change with the MSRB through the EMMA internet portal on June 7, 2017, which was more than ten business days after the occurrence of the rating change.

Since the District's continuing disclosure agreement entered into in connection with the issuance of its \$8,845,000 Contract Revenue Bonds, Series 2008, the District has been required to include Appendix A (Certain Financial Information Concerning the Participants) in each of its Annual Reports for fiscal years ending on or after May 31, 2008. The District timely filed its Annual Reports for the fiscal years ended May 31, 2015 and May 31, 2016. However, due to an administrative oversight, the District inadvertently omitted Appendix A from those filings. The District amended the May 31, 2015 and May 31, 2016 Annual Report filings to include Appendix A on June 12, 2017, which was more than six months after the end of the District's May 31, 2015 and May 31, 2016 fiscal years. The District filed a related notice of late filing with the MSRB through the EMMA internet portal on June 13, 2017.

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 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 such sources, 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. 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. Each consultant has agreed to the use of information provided by such firms.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the Master District's water and wastewater system and certain information included in the sections entitled "THE SERVICE AREA—Description and Location—Land Use and Status of Development," and "THE SYSTEM" has been provided by BGE, Inc., Consulting Engineers, 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 current and historical assessed valuations has been provided by the Fort Bend Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Fort Bend County, including the Service Area.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the Service Area's assessed valuations and certain other current and historical data concerning tax rates and tax collections has been provided by Utility Tax Service, LLC and is included herein in reliance upon the authority of such firm as an expert in collecting taxes.

Independent Auditor: The financial statements of the District and for each of the Participants as of May 31, 2020, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their reports appearing herein. See “APPENDIX B” for a copy of each Participant’s audited financial statements.

Bookkeeper: The information related to the “unaudited” summary of the District’s General Operating Fund as it appears in “THE SYSTEM—Water and Wastewater Operations” has been provided by F. Matuska, Inc., and is included herein in reliance upon the authority of such firm as experts in tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

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

Certification of Official Statement

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

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 Cinco Southwest Municipal Utility District No. 1, as of the date shown on the cover page.

ATTEST:

/s/ Larry Wayne Peterson
Secretary, Board of Directors

/s/ Jack McClure
President, Board of Directors

APPENDIX A

Certain Financial Information Regarding the Participants

Selected information concerning the Participants is included in this Appendix in addition to certain general information concerning the Participants and their obligation under the Master District Contract contained in the body of the OFFICIAL STATEMENT. See “THE PARTICIPANTS” and “MASTER DISTRICT CONTRACT” therein. Each Participant is severally liable for its contractual payments in an amount equal to its pro rata share of debt service requirements on the Contract Revenue Bonds. No Participant is liable for more than its share of such debt service. Consequently, the ability of the Master District to make timely payment of principal of and interest on the Contract Revenue Bonds would be impaired if any Participant became unable or unwilling to pay its pro rata share in full when due, unless the year-end balance of the Debt Service Fund of the Master District exceeded the amount of such Participant’s deficiency.

Certain Calculations

The information concerning the debt burden of the Participants makes reference to the principal amount of each Participant’s pro rata share of debt service on the Contract Revenue Bonds, each Participant’s outstanding unlimited tax bonds, if any, and certain annual tax rate calculations. In each case, this information has been computed as follows:

Contract Debt: The principal amount of each Participant’s Master District Contract debt has been calculated for purposes of analysis by allocating the principal amount of the Contract Revenue Bonds among the Participants in proportion to their gross assessed valuation. The assessed valuations used for this calculation are based on the 2021 Gross Assessed Valuation of \$2,399,379,891. The Participants’ share of annual debt service requirements on the Contract Revenue Bonds will be determined annually by reference to their relative certified assessed valuations established by the Fort Bend Central Appraisal District.

Tax Rate Calculations: Tax rate calculations assume that assessed valuation does not change from the 2021 Taxable Assessed Valuation of \$2,350,494,645 and that each Participant collects ninety-five percent (95%) of the taxes it levies, that it issues no additional bonds, and that the Master District does not issue any additional contract revenue bonds.

CINCO SOUTHWEST MUNICIPAL UTILITY DISTRICT NO. 1
(In Its Capacity as a Participant)

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds	\$20,000,000
Voter Authorized Unlimited Tax Road Bonds	\$10,000,000
Voter Authorized Unlimited Tax Refunding Bonds	\$25,000,000
Voter Authorized Unlimited Tax Park Bonds	\$5,000,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date	\$0
Debt Service Tax Limitation	Unlimited
Maintenance Tax Limitation	\$1.50
Road Maintenance Tax Limitation.....	\$0.25
Contract Tax Limitation	Unlimited
Gross Outstanding Direct Debt	\$0
2021 Taxable Assessed Valuation.....	\$22,935,973 (a)
2021 Gross Assessed Valuation	\$22,935,973 (a)
2021 Gross Assessed Valuation as a Percentage of 2021 Gross Assessed Valuation of Service Area.....	1.08%
Contract Debt Service Funds Available as of July 1, 2021	\$51,447
Average Annual Debt Service (2022-2038): Pro Rata Share of the Contract Revenue Bonds Based Upon 2021 Gross Assessed Valuation	\$84,759
Maximum Annual Debt Service (2022): Pro Rata Share of the Contract Revenue Bonds Based Upon 2021 Gross Assessed Valuation	\$112,288
Tax Rates Required to Pay:	
Average Annual Debt Service (2022-2038): Contract Revenue Bonds Based upon 2021 Taxable Assessed Valuation.....	\$0.34
Maximum Annual Debt Service (2022): Contract Revenue Bonds Based upon 2021 Taxable Assessed Valuation.....	\$0.46
<u>Status of Development as of June 2021:</u>	
Acreage	112
Multi-Family Units Completed	165

(a) Includes \$9,180 of uncertified taxable and gross value that is subject to review and downward revision prior to certification.

Principal Taxpayers:

The following table lists the principal taxpayer(s), such properties' assessed value and the assessed value as a percentage of the total assessed value of the Participant. This information is based upon the 2021 Certified Taxable Assessed Valuation.

<u>Taxpayer</u>	<u>2021 Certified Taxable Assessed Value</u>	<u>% of 2021 Certified Taxable Assessed Valuation</u>
Lakeside Villas Apartments, LP	\$ 25,229,990	97.23%
Individual	159,716	0.62%
Centerpoint Energy Electric	144,380	0.56%
Individual	142,451	0.55%
Cinco Ranch Residential Association II Inc	144,758	0.56%
Individual	63,960	0.25%
Individual	37,181	0.14%
Centerpoint Energy Entex	29,120	0.11%
Individual	12,093	0.05%
Gelco Fleet Trust	10,890	0.04%
Total	<u>\$ 25,974,539</u>	<u>100.00%</u>

Tax Rate Distribution:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -
Maintenance	0.185	0.200	0.200	0.250	0.300
Contract Tax	0.445	0.460	0.480	0.510	0.550
Total	<u>\$ 0.630</u>	<u>\$ 0.660</u>	<u>\$ 0.680</u>	<u>\$ 0.760</u>	<u>\$ 0.850</u>

Historical Tax Collections:

The District's total tax rate and collection information is shown below.

<u>Tax Year</u>	<u>Certified Taxable Assessed Valuation (a)</u>	<u>Tax Rate</u>	<u>Total Tax Levy (b)</u>	<u>Tax Collections as of June 30, 2021</u>	
				<u>Amount</u>	<u>Percent</u>
2016	\$ 19,007,616	\$0.850	\$ 161,565	\$ 161,565	100.00%
2017	17,553,160	0.760	133,404	133,404	100.00%
2018	20,339,849	0.680	138,311	138,311	100.00%
2019	21,557,539	0.660	142,280	142,280	100.00%
2020	22,935,973	0.630	146,790	146,630	99.89%

(a) As certified by the Appraisal District.

(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.

CINCO SOUTHWEST MUNICIPAL UTILITY DISTRICT NO. 2

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds	\$270,000,000
Voter Authorized Unlimited Tax Road Bonds	\$20,000,000
Voter Authorized Unlimited Tax Refunding Bonds	\$270,000,000
Voter Authorized Unlimited Tax Park Bonds	\$30,000,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date	\$30,240,000
Total Principal Amount of Unlimited Tax Refunding Bonds Issued to Date.....	\$27,315,000
Debt Service Tax Limitation	Unlimited
Maintenance Tax Limitation	\$1.50
Road Maintenance Tax Limitation.....	\$0.25
Contract Tax Limitation	Unlimited
Gross Outstanding Direct Debt	\$22,100,000
2021 Taxable Assessed Valuation.....	\$825,646,034 (a)
2021 Gross Assessed Valuation	\$834,642,532 (a)

2021 Gross Assessed Valuation as a Percentage of
 2021 Gross Assessed Valuation of Service Area..... 34.76%

Direct Debt Service Funds Available as of June 22, 2021 \$2,791,197
 Contract Debt Service Funds Available as of June 22, 2021 \$1,822,522

Average Annual Debt Service:
 Direct Debt (2022-2038) \$1,527,575
 Pro Rata Share of the Contract Revenue Bonds for (2022-2038) Based Upon
 2021 Gross Assessed Valuation 2,725,216
 Total Average Annual Debt Service..... \$4,252,791

Maximum Annual Debt Service:
 Direct Debt (2022)..... \$2,077,978
 Pro Rata Share of the Contract Revenue Bonds (2022) Based Upon
 2021 Gross Assessed Valuation 3,610,351
 Total Maximum Annual Debt Service..... \$5,688,329

Tax Rates Required to Pay Debt Service Based Upon 2021 Taxable Assessed Valuation:

Average Annual Debt Service:
 Direct Debt (2022-2038) \$0.19
 Contract Revenue Bonds (2022-2038) 0.35
 Total..... \$0.54

Maximum Annual Debt Service:
 Direct Debt (2022) Based Upon \$0.26
 Contract Revenue Bonds (2022)..... 0.46
 Total..... \$0.72

Status of Development as of June 2021:

Acreage	896
Total Single-Family Connections.....	1,792
Total Developed Lots.....	1,800

(a) Includes \$3,066,940 of uncertified taxable and gross value that is subject to review and downward revision prior to certification.

Principal Taxpayers:

The following table lists the principal taxpayer(s), such properties' assessed value and the assessed value as a percentage of the total assessed value of the Participant. This information is based upon the 2021 Certified Taxable Assessed Valuation.

Taxpayer	2021 Certified Taxable Assessed Value	% of 2021 Certified Taxable Assessed Valuation
Southpark Cinco Ranch LLC	\$ 46,706,900	5.68%
Lowes Home Centers LLC	16,815,320	2.04%
McAllen Interests LLC	5,532,630	0.67%
Terrace Spring Green LLC	5,415,000	0.66%
KM Cinco Plaza LLC	4,300,000	0.52%
Kroger Texas LP	3,365,210	0.41%
Thor Ranch LLC	3,057,440	0.37%
Trust B Rancho Lilac Trust	3,032,979	0.37%
Texas Petroleum Group LLC	2,605,340	0.32%
British Private Prep Schools at Cinco Southwest Ltd	2,473,287	0.30%
Total	\$ 93,304,106	11.34%

Tax Rate Distribution:

	2020	2019	2018	2017	2016
Debt Service	\$ 0.260	\$ 0.260	\$ 0.270	\$ 0.280	\$ 0.280
Maintenance	0.200	0.200	0.170	0.160	0.165
Contract Tax	0.440	0.470	0.470	0.500	0.540
Total	\$ 0.900	\$ 0.930	\$ 0.910	\$ 0.940	\$ 0.985

Historical Tax Collections:

Tax Year	Certified Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy (b)	Tax Collections as of June 30, 2021	
				Amount	Percent
2016	\$ 776,229,703	\$0.985	\$ 7,645,863	\$7,640,510	99.93%
2017	768,236,442	0.940	7,221,423	7,217,090	99.94%
2018	778,620,366	0.910	7,085,445	7,076,234	99.87%
2019	786,918,408	0.930	7,318,341	7,299,314	99.74%
2020	803,722,917	0.900	7,233,506	7,024,458	97.11%

(a) As certified by the Appraisal District less any exemptions granted.

(b) Represents actual tax levy including any adjustments by the Appraisal District as of the date hereof.

CINCO SOUTHWEST MUNICIPAL UTILITY DISTRICT NO. 3

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds	\$105,000,000
Voter Authorized Unlimited Tax Road Bonds.....	\$20,000,000
Voter Authorized Unlimited Tax Refunding Bonds	\$105,000,000
Voter Authorized Unlimited Tax Park Bonds.....	\$25,000,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date	\$25,330,000
Total Principal Amount of Unlimited Tax Refunding Bonds Issued to Date.....	\$18,240,000
Debt Service Tax Limitation	Unlimited
Maintenance Tax Limitation	\$1.50
Road Maintenance Tax Limitation.....	\$0.25
Contract Tax Limitation.....	Unlimited
Gross Outstanding Direct Debt	\$18,500,000

2021 Taxable Assessed Valuation.....	\$675,005,923 (a)
2021 Gross Assessed Valuation	\$705,884,006 (a)

2021 Gross Assessed Valuation as a Percentage of 2021 Gross Assessed Valuation of Service Area.....	29.42%
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Direct Debt Service Funds Available as of June 28, 2021	\$1,819,109
Contract Debt Service Funds Available as of June 28, 2021	\$1,737,305

Average Annual Debt Service:	
Direct Debt (2022-2038)	\$1,301,410
Pro Rata Share of the Contract Revenue Bonds for (2022-2038) Based Upon 2021 Gross Assessed Valuation	<u>2,304,803</u>
Total Average Annual Debt Service.....	\$3,606,213

Maximum Annual Debt Service:	
Direct Debt (2022).....	\$2,077,978
Pro Rata Share of the Contract Revenue Bonds (2022) Based Upon 2021 Gross Assessed Valuation	<u>3,053,390</u>
Total Maximum Annual Debt Service.....	\$5,131,368

Tax Rates Required to Pay Debt Service Based Upon 2021 Taxable Assessed Valuation:

<u>Average Annual Debt Service:</u>	
Direct Debt (2022-2038)	\$0.20
Contract Revenue Bonds (2022-2038)	<u>0.36</u>
Total.....	\$0.56

Maximum Annual Debt Service:	
Direct Debt (2022) Based Upon	\$0.31
Contract Revenue Bonds (2022).....	<u>\$0.48</u>
Total.....	\$0.79

Status of Development as of June 2021:

Acreage	676
Total Single-Family Connections.....	1,715
Total Developed Lots	1,719

(a) Includes \$352,910 of uncertified taxable and gross value that is subject to review and downward revision prior to certification.

Principal Taxpayers:

The following table lists the principal taxpayer(s), such properties' assessed value and the assessed value as a percentage of the total assessed value of the Participant. This information is based upon the 2021 Certified Taxable Assessed Valuation.

Taxpayer	2021 Certified Taxable Assessed Value	% of 2021 Certified Taxable Assessed Valuation
R&O Cinco Ranch Properties LLC	\$ 6,328,900	0.94%
1463CRB LLC	4,318,150	0.64%
Jamil Family Land Development LLC	2,512,430	0.37%
KDP Land Company LLC	2,225,560	0.33%
Gush Properties KG2, LLC	1,890,990	0.28%
Centerpoint Energy Electric Individual	1,677,260	0.25%
Individual	883,490	0.13%
Individual	881,701	0.13%
Individual	814,670	0.12%
Individual	759,843	0.11%
Total	\$ 22,292,994	3.30%

Tax Rate Distribution:

	2020	2019	2018	2017	2016
Debt Service	\$ 0.245	\$ 0.245	\$ 0.265	\$ 0.260	\$ 0.260
Maintenance	0.195	0.235	0.160	0.250	0.310
Contract Tax	0.480	0.450	0.510	0.490	0.550
Total	\$ 0.920	\$ 0.930	\$ 0.935	\$ 1.000	\$ 1.120

Historical Tax Collections:

Tax Year	Certified Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy (b)	Tax Collections as of May 31, 2021	
				Amount	Percent
2016	\$ 688,367,560	\$ 1.120	\$ 7,709,717	\$ 7,709,717	100.00%
2017	670,929,010	1.000	6,709,290	6,709,290	100.00%
2018	668,141,960	0.935	6,247,127	6,247,127	100.00%
2019	651,301,412	0.930	6,057,103	6,049,835	99.88%
2020	641,555,009	0.920	5,902,306	5,751,797	97.45%

(a) As certified by the Appraisal District.

(b) Represents actual tax levy including any adjustments by the Appraisal District as of the date hereof.

CINCO SOUTHWEST MUNICIPAL UTILITY DISTRICT NO. 4

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds	\$105,000,000
Voter Authorized Unlimited Tax Road Bonds.....	\$20,000,000
Voter Authorized Unlimited Tax Refunding Bonds	\$105,000,000
Voter Authorized Unlimited Tax Park Bonds.....	\$25,000,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date	\$28,230,000
Total Principal Amount of Unlimited Tax Refunding Bonds Issued to Date.....	\$17,980,000
Debt Service Tax Limitation	Unlimited
Maintenance Tax Limitation	\$1.50
Road Maintenance Tax Limitation.....	\$0.25
Contract Tax Limitation.....	Unlimited
Gross Outstanding Direct Debt	\$21,085,000

2021 Taxable Assessed Valuation.....	\$823,883,969 (a)
2021 Gross Assessed Valuation	\$832,894,634 (b)

2021 Gross Assessed Valuation as a Percentage of
 2021 Gross Assessed Valuation of Service Area..... 34.71%

Direct Debt Service Funds Available as of June 22, 2021	\$2,688,424
Contract Debt Service Funds Available as of June 22, 2021	\$1,781,028

Average Annual Debt Service:

Direct Debt (2022-2038)	\$1,514,582
Pro Rata Share of the Contract Revenue Bonds for (2022-2038) Based Upon 2021 Gross Assessed Valuation	<u>2,719,509</u>
Total Average Annual Debt Service.....	\$4,234,091

Maximum Annual Debt Service:

Direct Debt (2022).....	\$1,876,195
Pro Rata Share of the Contract Revenue Bonds (2022) Based Upon 2021 Gross Assessed Valuation	<u>3,602,790</u>
Total Maximum Annual Debt Service.....	\$5,478,985

Tax Rates Required to Pay Debt Service Based Upon 2021 Taxable Assessed Valuation:

Average Annual Debt Service:

Direct Debt (2022-2038)	\$0.19
Contract Revenue Bonds (2022-2038)	<u>0.35</u>
Total.....	\$0.54

Maximum Annual Debt Service:

Direct Debt (2022) Based Upon	\$0.23
Contract Revenue Bonds (2022).....	<u>0.46</u>
Total.....	\$0.69

Status of Development as of June 2021:

Acreage	706
Total Single-Family Connections.....	1,684
Total Developed Lots	1,690
Multi-Family Units Completed	5

(a) Includes \$984,340 of uncertified taxable value that is subject to review and downward revision prior to certification.
 (b) Includes \$934,340 of uncertified gross value that is subject to review and downward revision prior to certification.

Principal Taxpayers:

The following table lists the principal taxpayer(s), such properties' assessed value and the assessed value as a percentage of the total assessed value of the Participant. This information is based upon the 2021 Certified Taxable Assessed Valuation.

Taxpayer	2021 Certified Taxable Assessed Value	% of 2021 Certified Taxable Assessed Valuation
Midland Live Oak Holdings Ltd & Winscape	\$ 38,350,000	4.66%
DD Katy Gaston LLC	25,991,000	3.16%
Cinco CLA Partners Ltd	6,888,000	0.84%
The Plazas at Cinco Southwest Ltd	5,907,510	0.72%
CubeSmart LP	5,901,040	0.72%
Plazas at Spring Green Ltd	4,670,000	0.57%
Terra Vest (Texas) Properties Corp.	2,480,710	0.30%
Early Spark Ventures LLC	2,472,280	0.30%
Texas Petroleum Group LLC	2,398,250	0.29%
Centerpoint Energy Electric	2,045,260	0.25%
Total	\$ 97,104,050	11.80%

Tax Rate Distribution:

	2020	2019	2018	2017	2016
Debt Service	\$0.2300	\$0.2350	\$ 0.2350	\$ 0.2450	\$0.2600
Maintenance	0.1500	0.1429	0.1300	0.1550	0.1600
Contract Tax	0.4450	0.4600	0.4650	0.5100	0.5400
Total	\$0.8250	\$0.8379	\$ 0.8300	\$ 0.9100	\$0.9600

Historical Tax Collections:

Tax Year	Certified Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy (b)	Tax Collections as of May 31, 2021	
				Amount	Percent
2016	\$ 748,996,689	\$0.960	\$ 7,190,368	\$ 7,186,773	99.95%
2017	780,432,064	0.910	7,101,932	7,099,091	99.96%
2018	777,913,983	0.830	6,456,686	6,454,103	99.96%
2019	788,900,336	0.838	6,610,196	6,599,620	99.84%
2020	799,074,558	0.825	6,592,365	6,392,616	96.97%

(a) As certified by the Appraisal District less any exemptions granted.

(b) Represents actual tax levy including any adjustments by the Appraisal District as of the date hereof.

APPENDIX B

Independent Auditor's Report and Financial Statements of the District for the year ended May 31, 2020

Independent Auditor's Report and Financial Statements of MUD 2 for the year ended May 31, 2020

Independent Auditor's Report and Financial Statements of MUD 3 for the year ended May 31, 2020

Independent Auditor's Report and Financial Statements of MUD 4 for the year ended May 31, 2020

Cinco Southwest Municipal Utility District No. 1

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2020



Cinco Southwest Municipal Utility District No. 1
May 31, 2020

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Independent Auditor's Report

Board of Directors
Cinco Southwest Municipal Utility District No. 1
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Cinco Southwest Municipal Utility District No. 1 (the District), as of and for the year ended May 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 entity'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, business-type activities and each major fund of the District as May 31, 2020, and the respective changes in financial position and cash flows, where applicable, thereof 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 budgetary comparison schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
October 12, 2020

Cinco Southwest Municipal Utility District No. 1

Management's Discussion and Analysis

May 31, 2020

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Cinco Southwest Municipal Utility District No. 1

Management's Discussion and Analysis (Continued)

May 31, 2020

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Proprietary Funds

Proprietary funds, in general, charge customers for the services that are provided. These funds use a long-term financial accounting approach, full accrual basis and provide additional information in the statement of cash flows. The proprietary fund statements provide the same information as the business-type activities portion of the government-wide financial statements, only in more detail.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Cinco Southwest Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
May 31, 2020

2020 Summary of Net Position

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 405,463	\$ 25,423,001	\$ 25,828,464
Capital assets	-	114,233,235	114,233,235
Total assets	<u>405,463</u>	<u>139,656,236</u>	<u>140,061,699</u>
Deferred outflows of resources	<u>0</u>	<u>6,907,566</u>	<u>6,907,566</u>
Total assets and deferred outflows of resources	<u>\$ 405,463</u>	<u>\$ 146,563,802</u>	<u>\$ 146,969,265</u>
Long-term liabilities	\$ -	\$ 122,793,004	\$ 122,793,004
Other liabilities	<u>774</u>	<u>3,320,687</u>	<u>3,321,461</u>
Total liabilities	<u>774</u>	<u>126,113,691</u>	<u>126,114,465</u>
Net position:			
Net investment in capital assets	-	(1,527,581)	(1,527,581)
Restricted	-	15,648,004	15,648,004
Unrestricted	<u>404,689</u>	<u>6,329,688</u>	<u>6,734,377</u>
Total net position	<u>\$ 404,689</u>	<u>\$ 20,450,111</u>	<u>\$ 20,854,800</u>

2019 Summary of Net Position

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 369,032	\$ 27,155,962	\$ 27,524,994
Capital assets	-	116,545,873	116,545,873
Total assets	<u>369,032</u>	<u>143,701,835</u>	<u>144,070,867</u>
Deferred outflows of resources	<u>0</u>	<u>6,294,856</u>	<u>6,294,856</u>
Total assets and deferred outflows of resources	<u>\$ 369,032</u>	<u>\$ 149,996,691</u>	<u>\$ 150,365,723</u>
Long-term liabilities	\$ -	\$ 127,907,032	\$ 127,907,032
Other liabilities	<u>835</u>	<u>3,723,060</u>	<u>3,723,895</u>
Total liabilities	<u>835</u>	<u>131,630,092</u>	<u>131,630,927</u>
Net position:			
Net investment in capital assets	-	(3,848,336)	(3,848,336)
Restricted	-	15,846,221	15,846,221
Unrestricted	<u>368,197</u>	<u>6,368,714</u>	<u>6,736,911</u>
Total net position	<u>\$ 368,197</u>	<u>\$ 18,366,599</u>	<u>\$ 18,734,796</u>

Cinco Southwest Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
May 31, 2020

The total net position of the District's governmental activities increased by \$36,492, or about 10 percent. The majority of the increase in net position is related to charges for services and property tax revenues exceeding expenses.

The net position of the District's business-type activities increased by \$2,083,512, or about 12 percent. The majority of the increase in net position is related to charges for regional services and other revenues exceeding expenses. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

2020 Summary of Changes in Net Position

	Governmental Activities	Business-type Activities	Total
Program revenues:			
Charges for services	\$ 60,608	\$ 17,892,849	\$ 17,953,457
General revenues:			
Property taxes	142,280	-	142,280
City of Houston rebates	-	456,271	456,271
Other revenues and transfers	1,916	399,225	401,141
Total revenues	<u>204,804</u>	<u>18,748,345</u>	<u>18,953,149</u>
Expenses:			
Services	70,002	7,485,118	7,555,120
Depreciation	-	3,730,471	3,730,471
Debt service and contractual payments	98,310	5,449,244	5,547,554
Total expenses	<u>168,312</u>	<u>16,664,833</u>	<u>16,833,145</u>
Change in net position	36,492	2,083,512	2,120,004
Net position, beginning of year	<u>368,197</u>	<u>18,366,599</u>	<u>18,734,796</u>
Net position, end of year	<u>\$ 404,689</u>	<u>\$ 20,450,111</u>	<u>\$ 20,854,800</u>

2019 Summary of Changes in Net Position

	Governmental Activities	Business-type Activities	Total
Program revenues:			
Charges for services	\$ 58,381	\$ 17,810,752	\$ 17,869,133
General revenues:			
Property taxes	138,091	-	138,091
City of Houston rebates	-	447,422	447,422
Other revenues and transfers	1,352	439,379	440,731
Total revenues	<u>197,824</u>	<u>18,697,553</u>	<u>18,895,377</u>

Cinco Southwest Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
May 31, 2020

2019 Summary of Changes in Net Position (Continued)

	Governmental Activities	Business-type Activities	Total
Expenses:			
Services	\$ 68,154	\$ 6,355,583	\$ 6,423,737
Depreciation	-	3,689,068	3,689,068
Debt service and contractual payments	92,513	5,477,295	5,569,808
Total expenses	<u>160,667</u>	<u>15,521,946</u>	<u>15,682,613</u>
Change in net position	37,157	3,175,607	3,212,764
Net position, beginning of year	<u>331,040</u>	<u>15,190,992</u>	<u>15,522,032</u>
Net position, end of year	<u>\$ 368,197</u>	<u>\$ 18,366,599</u>	<u>\$ 18,734,796</u>

Financial Analysis of the District's Funds

Governmental Activities

The general fund's fund balance increased by \$36,472, primarily due to property taxes and service revenues in excess of service operations and contractual obligation expenditures.

Business-type Activities

The enterprise fund's net position increased by \$2,083,512, primarily due to charges for regional services exceeding operating and debt service expenses.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major difference between budget and actual was due to property taxes revenues being higher than anticipated. In addition, the contractual obligation debt service expenditure was not budgeted. The fund balance as of May 31, 2020, was expected to be \$377,597 and the actual end-of-year fund balance was \$404,669.

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal year are summarized as follows.

Cinco Southwest Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
May 31, 2020

Capital Assets (Net of Accumulated Depreciation)

	2020	2019
Business-type activities:		
Land and improvements	\$ 34,605,188	\$ 33,673,697
Construction in progress	853,666	1,472,384
Water facilities	17,997,226	18,864,850
Wastewater facilities	17,261,074	17,109,767
Drainage facilities	28,595,717	29,458,855
Roads	9,189,606	9,721,595
Parks and recreational facilities	5,730,758	6,244,725
Total capital assets	\$ 114,233,235	\$ 116,545,873

During the current year, additions to capital assets were as follows:

Business-type activities:	
Construction in progress related to wastewater reuse study	\$ 654,148
Ditch DS rehabilitation	570,813
Water well No. 2 rehabilitation	181,735
Wastewater treatment plant improvements	11,137
Total additions to business-type activities capital assets	\$ 1,417,833

Debt

The changes in the debt position of the District during the fiscal year ended May 31, 2020, are summarized as follows:

	<u>Business-type Activities</u>
Long-term debt payable, beginning of year	\$ 127,907,032
Increases in long-term debt	22,956,099
Decreases in long-term debt	(28,070,127)
Long-term debt payable, end of year	\$ 122,793,004

Cinco Southwest Municipal Utility District No. 1

Management's Discussion and Analysis (Continued)

May 31, 2020

During fiscal year ended May 31, 2020, the District issued \$10,270,000 in contract revenue refunding bonds, Series 2019A to refund \$10,240,000 of outstanding contract revenue Series 2011 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$1,998,955 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,563,962.

Also during fiscal year ended May 31, 2020, the District issued \$11,970,000 in contract revenue road refunding bonds, Series 2019 to refund \$6,160,000 of outstanding contract road revenue Series 2011 bonds and \$5,760,000 of outstanding contract road revenue Series 2012 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$2,339,826 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,778,899.

At May 31, 2020, the District had \$20,000,000 of internal district unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District, \$5,000,000 of internal district unlimited tax bonds authorized, but unissued, for the purpose of constructing recreational facilities and \$10,000,000 of internal district unlimited tax bonds authorized, but unissued, for the purpose of constructing roads.

The District's contract revenue bonds carry an underlying rating of "A1" from Moody's Investors Service and "BBB" from Standard & Poor's. The Series 2010A, 2010B, Road 2011, 2011 and 2012 bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2013, 2014, Refunding 2015, Refunding 2016, Refunding 2019, Refunding 2019A and Road Refunding 2019 bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company. The Series Refunding 2017 bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Municipal Assurance Corp.

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent. If the District is annexed, the City must assume the District's assets and obligations (including the bonded indebtedness) and abolish the District within 90 days.

Strategic Partnership Revenue Pooling Agreement

The District has entered into a Strategic Partnership Revenue Pooling Agreement (the Agreement) with Cinco Southwest Municipal Utility District No. 2, Cinco Southwest Municipal Utility District No. 3 and Cinco Southwest Municipal Utility District No. 4, effective October 2, 2009, for a term of 30 years. Whereas District Nos. 2, 3 and 4 have entered into Strategic Partnership Agreements (SPAs) with the City, pursuant to the terms

Cinco Southwest Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
May 31, 2020

of the Agreement, the District has assumed responsibility of becoming the coordinating district to pool any revenue received from the SPAs in order to finance the acquisition, design, construction, improvement, enlargement, extension, repair, operation and/or maintenance of regional facilities. During the current year, the District received \$456,271 in revenue related to the Agreement.

Subsequent Event

In June 2020, the District issued \$9,330,000 in contract revenue refunding bonds, Series 2020, to refund \$9,255,000 of outstanding contract revenue Series 2012 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$599,593 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$472,433.

Cinco Southwest Municipal Utility District No. 1
Statement of Net Position
May 31, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 422,885	\$ 1,399,270	\$ 1,822,155
Short-term investments	-	23,140,787	23,140,787
Receivables:			
Property taxes receivable	20	-	20
Service accounts receivable	-	22,197	22,197
Due from others	-	236,101	236,101
Due from other districts	-	607,204	607,204
Internal balances	(17,442)	17,442	-
	<u>405,463</u>	<u>25,423,001</u>	<u>25,828,464</u>
Total current assets			
Noncurrent Assets			
Capital assets, net:			
Land improvements	-	34,605,188	34,605,188
Construction in progress	-	853,666	853,666
Infrastructure	-	63,854,017	63,854,017
Roads	-	9,189,606	9,189,606
Parks and recreational facilities	-	5,730,758	5,730,758
	<u>0</u>	<u>114,233,235</u>	<u>114,233,235</u>
Total noncurrent assets			
Total assets	405,463	139,656,236	140,061,699
Deferred Outflows of Resources			
Deferred amount on debt refundings	-	6,907,566	6,907,566
	<u>-</u>	<u>6,907,566</u>	<u>6,907,566</u>
Total assets and deferred outflows of resources	<u>\$ 405,463</u>	<u>\$ 146,563,802</u>	<u>\$ 146,969,265</u>

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilities and Net Position			
Current Liabilities			
Accounts payable	\$ 774	\$ 1,158,724	\$ 1,159,498
Retainage payable	-	30,485	30,485
Accrued interest payable	-	2,070,291	2,070,291
Due to others	-	61,187	61,187
Long-term liabilities, current portion	-	6,885,000	6,885,000
Total current liabilities	774	10,205,687	10,206,461
Noncurrent Liabilities			
Long-term liabilities, net	-	115,908,004	115,908,004
Total liabilities	774	126,113,691	126,114,465
Net Position			
Net investment in capital assets	-	(1,527,581)	(1,527,581)
Restricted:			
Debt service	-	15,479,663	15,479,663
Capital projects	-	168,341	168,341
Unrestricted	404,689	6,329,688	6,734,377
Total net position	404,689	20,450,111	20,854,800
Total liabilities and net position	\$ 405,463	\$ 146,563,802	\$ 146,969,265

Cinco Southwest Municipal Utility District No. 1
Statement of Activities
Year Ended May 31, 2020

	Program Revenue		Net Revenue (Expense) and Changes in Net Position			
	Expenses	Charges for Services	Charges for Regional Services	Primary Government		
				Governmental Activities	Business- type Activities	Total
Government/Programs						
Primary Government						
Governmental activities:						
Service operations	\$ 70,002	\$ 60,608	\$ -	\$ (9,394)	\$ -	\$ (9,394)
Contractual obligation	98,310	-	-	(98,310)	-	(98,310)
Total governmental activities	168,312	60,608	0	(107,704)	0	(107,704)
Business-type activities:						
Regional service operations	7,485,118	-	17,892,849	-	10,407,731	10,407,731
Depreciation	3,730,471	-	-	-	(3,730,471)	(3,730,471)
Interest expense on long-term liabilities	4,708,268	-	-	-	(4,708,268)	(4,708,268)
Debt issuance costs on long-term liabilities	740,976	-	-	-	(740,976)	(740,976)
Total business-type activities	16,664,833	0	17,892,849	0	1,228,016	1,228,016
Total government/programs primary government	\$ 16,833,145	\$ 60,608	\$ 17,892,849	(107,704)	1,228,016	1,120,312
General Revenues						
Property taxes				142,280	-	142,280
Penalty and interest				981	63,787	64,768
Investment income				935	335,438	336,373
City of Houston rebates				-	456,271	456,271
Total general revenues				144,196	855,496	999,692
Change in Net Position				36,492	2,083,512	2,120,004
Net Position						
Beginning of Year				368,197	18,366,599	18,734,796
End of Year				\$ 404,689	\$ 20,450,111	\$ 20,854,800

Cinco Southwest Municipal Utility District No. 1
Balance Sheet – Governmental Fund
May 31, 2020

	General Fund
Assets	
Cash and cash equivalents	\$ 422,885
Property taxes receivable	20
Internal balances	(17,442)
Total assets	\$ 405,463
 Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 774
 Deferred Inflows of Resources	
Deferred property tax revenues	20
 Fund Balance	
Unassigned	404,669
Total liabilities and fund balance	\$ 405,463

Cinco Southwest Municipal Utility District No. 1
Statement of Revenues, Expenditures and Changes
in Fund Balance – Governmental Fund
Year Ended May 31, 2020

	General Fund
Revenues	
Property taxes	\$ 142,260
Water service	15,777
Sewer service	14,159
Regional water fee	30,672
Penalty and interest	981
Investment income	935
	204,784
Total revenues	204,784
Expenditures	
Service operations:	
Purchased services	20,592
Regional water fee	30,897
Professional fees	4,000
Contracted services	7,235
Other expenditures	7,278
Debt service, contractual obligation	98,310
	168,312
Total expenditures	168,312
Net Change in Fund Balance	36,472
Fund Balance, Beginning of Year	368,197
Fund Balance, End of Year	\$ 404,669

Cinco Southwest Municipal Utility District No. 1
Statement of Net Position – Proprietary Fund
May 31, 2020

	Business-type Activities - Enterprise Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 1,399,270
Short-term investments	23,140,787
Service accounts receivables	22,197
Due from others	236,101
Internal balances	17,442
Due from other districts	607,204
Total current assets	25,423,001
Noncurrent Assets	
Capital assets, net of accumulated depreciation	114,233,235
Total assets	139,656,236
Deferred Outflows of Resources	
Deferred amount on debt refundings	6,907,566
Total assets and deferred outflows of resources	\$ 146,563,802
Liabilities and Net Position	
Current Liabilities	
Accounts payable	\$ 1,158,724
Accrued interest payable	2,070,291
Retainage payable	30,485
Due to others	61,187
Long-term liabilities, current portion	6,885,000
Total current liabilities	10,205,687
Noncurrent Liabilities	
Long-term liabilities	115,908,004
Total liabilities	126,113,691
Net Position	
Net investment in capital assets	(1,527,581)
Restricted:	
Debt service fund	15,479,663
Capital projects fund	168,341
Unrestricted	6,329,688
Total net position	20,450,111
Total liabilities and net position	\$ 146,563,802

Cinco Southwest Municipal Utility District No. 1
Statement of Revenues, Expenses and Changes
in Net Position – Proprietary Fund
Year Ended May 31, 2020

	Business-type Activities - Enterprise Fund
Operating Revenues	
Charges for services	\$ 17,956,636
City of Houston rebates	456,271
	18,412,907
Operating Expenses	
Purchased services	1,504,331
Regional water fee	2,568,018
Professional fees	271,358
Contracted services	405,790
Utilities	376,096
Repairs and maintenance	1,709,957
Other expenditures	649,568
Depreciation	3,730,471
	11,215,589
	7,197,318
Operating Income	
Nonoperating Income (Expense)	
Investment income	335,438
Debt service, interest and fiscal agent fees	(4,708,268)
Debt issuance costs	(740,976)
	(5,113,806)
Change in Net Position	2,083,512
Net Position	
Beginning of Year	18,366,599
End of Year	\$ 20,450,111

Cinco Southwest Municipal Utility District No. 1
Statement of Cash Flows – Proprietary Fund
Year Ended May 31, 2020

	Business-type Activities - Enterprise Fund
Operating Activities	
Receipts from contract payments	\$ 10,729,533
Receipts from capacity reservations	2,857,404
Receipts from City of Houston rebates	456,271
Payments for service operations	(7,278,541)
Receipts for service operations	4,644,076
Other operating payments	(381,212)
	11,027,531
Net cash provided by operating activities	11,027,531
Capital and Related Financing Activities	
Proceeds from the issuance of contract revenue refunding bonds	22,240,000
Principal payments on capital debt	(6,695,000)
Interest and agent fees paid on capital debt	(4,425,923)
Payments to escrow agent	(22,200,879)
Debt issuance costs	(740,976)
Debt defeasance	(362,295)
Premium on bond sale	716,099
Purchase of capital assets	(1,417,833)
	(12,886,807)
Net cash used in capital and related financing activities	(12,886,807)
Investing Activities	
Sale of investments	1,625,751
Interest and other income	335,438
	1,961,189
Net cash provided by investing activities	1,961,189
Net Increase in Cash and Cash Equivalents	101,913
Cash and Cash Equivalents, Beginning of Year	1,297,357
Cash and Cash Equivalents, End of Year	\$ 1,399,270
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 7,197,318
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	3,730,471
Change in assets and liabilities:	
Receivables, net	208,413
Prepaid expenses and other assets	710
Accounts payable and accrued liabilities	(109,381)
	(109,381)
Net cash provided by operating activities	\$ 11,027,531

Cinco Southwest Municipal Utility District No. 1

Notes to Financial Statements

May 31, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Cinco Southwest Municipal Utility District No. 1 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission) dated June 20, 2003. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. The District also serves as the "Master District" as discussed in Note 7 to the financial statements.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through intergovernmental revenues and reimbursements from participants. Business-type activities are financed by fees charged to external parties for goods and services.

In the government-wide statement of net position, both the governmental and business-type activities columns are presented on a full accrual, economic resource basis, which recognizes all long-term assets and receivables, as well as long-term debt and obligations.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include

Cinco Southwest Municipal Utility District No. 1

Notes to Financial Statements

May 31, 2020

charges paid by the recipients of goods or services offered by the programs that are restricted to meeting operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as investment earnings, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the District are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or if it meets certain other criteria.

Currently, the District only has one governmental fund, the general fund.

Governmental Fund

The District presents the following major governmental fund:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Fund Balance – Governmental Fund

The fund balance for the District's governmental fund can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

Cinco Southwest Municipal Utility District No. 1

Notes to Financial Statements

May 31, 2020

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Proprietary Fund

Enterprise Fund – The enterprise fund accounts for the operations of the regional facilities. These facilities provide water supply and delivery, wastewater collection, treatment and disposal facilities to participants.

Measurement Focus

Measurement focus is a term used to describe which transactions are recorded within the various financial statements.

In the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item (b) as shown below:

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used as appropriate:

- (a) All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- (b) The proprietary funds utilize an 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 (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

All governmental funds use the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when susceptible to accrual (*i.e.*, when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Cinco Southwest Municipal Utility District No. 1

Notes to Financial Statements

May 31, 2020

All primary sources of the District's revenue are susceptible to accrual. Examples of revenue accrued are taxes, fees for services, charges to participants based on cost-reimbursement contracts and earnings from investments.

Deferred revenue is recorded when the potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received before earned.

Expenditures and liabilities are recognized when the related fund obligations are incurred as a result of receipt of goods and services.

All proprietary funds use the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services, along with penalties and fees. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources and

Cinco Southwest Municipal Utility District No. 1

Notes to Financial Statements

May 31, 2020

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of money market funds.

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended May 31, 2020, include collections during the current period or within 60 days of year-end related to the 2019 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended May 31, 2020, the 2019 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Cinco Southwest Municipal Utility District No. 1

Notes to Financial Statements

May 31, 2020

Capital Assets

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets of proprietary funds are reported in both the government-wide and fund financial statements. All other capital assets of the governmental unit are general capital assets. They are not reported as assets in governmental funds, but are reported in the governmental activities column in the government-wide statement of net position.

Capital assets are recorded at historical cost and depreciated over their estimated useful lives unless they are inexhaustible, such as land. Depreciation expense is reported in the government-wide statement of activities, and the proprietary fund statement of revenues, expenses and changes in net position.

Capital assets are depreciated using the straight-line method over their estimated useful lives, as follows:

	<u>Years</u>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45
Roads	10-45
Parks and recreational facilities	10-45

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Cinco Southwest Municipal Utility District No. 1
Notes to Financial Statements
May 31, 2020

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balance

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balance in the governmental fund balance sheet are different because:

Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	\$ <u>20</u>
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Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balance in the governmental fund statement of revenues, expenditures and change in fund balance because:

Change in fund balance	\$ 36,472
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.	<u>20</u>
Change in net position of governmental activities	<u>\$ 36,492</u>

Cinco Southwest Municipal Utility District No. 1
Notes to Financial Statements
May 31, 2020

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At May 31, 2020, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At May 31, 2020, the District had the following investments and maturities:

Type	Maturities in Years				
	Amortized Cost	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 5,605,011	\$ 5,605,011	\$ -	\$ -	\$ -
Government money market funds	17,535,776	17,535,776	-	-	-
Totals	<u>\$ 23,140,787</u>	<u>\$ 23,140,787</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Cinco Southwest Municipal Utility District No. 1
Notes to Financial Statements
May 31, 2020

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool and government money market funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2020, the District's investments in TexPool and the government money market funds were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the statement of net position at May 31, 2020, as follows:

Carrying value:		
Deposits	\$	1,822,155
Investments		23,140,787
Total	\$	24,962,942

Included in the following captions:

Governmental activities:		
Cash and cash equivalents	\$	422,885
Business-type activities:		
Cash and cash equivalents		1,399,270
Short-term investments		23,140,787
Total	\$	24,962,942

Investment Income

Investment income of \$935 in the governmental activities and \$335,438 in the business-type activities for the year ended May 31, 2020, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended May 31, 2020, is presented below.

Cinco Southwest Municipal Utility District No. 1
Notes to Financial Statements
May 31, 2020

Business-type Activities	Balances, Beginning of Year	Additions	Reclass- ifications	Balances, End of Year
Capital assets, non-depreciable:				
Land and improvements	\$ 33,673,697	\$ 570,813	\$ 360,678	\$ 34,605,188
Construction in progress	1,472,384	654,148	(1,272,866)	853,666
Total capital assets, non-depreciable	35,146,081	1,224,961	(912,188)	35,458,854
Capital assets, depreciable:				
Water production and distribution facilities	27,999,491	181,735	-	28,181,226
Wastewater collection and treatment facilities	24,194,081	11,137	912,188	25,117,406
Drainage facilities	38,176,475	-	-	38,176,475
Roads	14,191,815	-	-	14,191,815
Parks and recreational facilities	9,953,327	-	-	9,953,327
Total capital assets, depreciable	114,515,189	192,872	912,188	115,620,249
Less accumulated depreciation:				
Water production and distribution facilities	(9,134,641)	(1,049,359)	-	(10,184,000)
Wastewater collection and treatment facilities	(7,084,314)	(772,018)	-	(7,856,332)
Drainage facilities	(8,717,620)	(863,138)	-	(9,580,758)
Roads	(4,470,220)	(531,989)	-	(5,002,209)
Parks and recreational facilities	(3,708,602)	(513,967)	-	(4,222,569)
Total accumulated depreciation	(33,115,397)	(3,730,471)	0	(36,845,868)
Total business-type activities, net	\$ 116,545,873	\$ (2,312,638)	\$ 0	\$ 114,233,235

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended May 31, 2020, were as follows.

Cinco Southwest Municipal Utility District No. 1
Notes to Financial Statements
May 31, 2020

Business-type Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
Contract revenue bonds	\$ 127,865,000	\$ 22,240,000	\$ 28,855,000	\$ 121,250,000	\$ 6,885,000
Less discounts on bonds	1,984,111	-	899,990	1,084,121	-
Add premiums on bonds	2,026,143	716,099	115,117	2,627,125	-
 Total business-type activities long-term liabilities	 <u>\$ 127,907,032</u>	 <u>\$ 22,956,099</u>	 <u>\$ 28,070,127</u>	 <u>\$ 122,793,004</u>	 <u>\$ 6,885,000</u>

Business-type Activities

Contract Revenue Bonds

	Series 2009A	Series 2010
Amounts outstanding, May 31, 2020	\$270,000	\$255,000
Interest rates	4.60%	4.30%
Maturity dates, serially beginning/ending	December 1, 2020	December 1, 2020
Interest payment dates	June 1/ December 1	June 1/ December 1
Callable dates*	December 1, 2018	December 1, 2018
	Series 2010A	Series 2010B
Amounts outstanding, May 31, 2020	\$325,000	\$550,000
Interest rates	4.125%	4.50%
Maturity dates, serially beginning/ending	December 1, 2020	December 1, 2020
Interest payment dates	June 1/ December 1	June 1/ December 1
Callable dates*	December 1, 2018	December 1, 2018

*Or any date thereafter, callable at par plus accrued interest to the date of redemption.

Cinco Southwest Municipal Utility District No. 1
Notes to Financial Statements
May 31, 2020

	Road Series 2011	Series 2011
Amounts outstanding, May 31, 2020	\$385,000	\$640,000
Interest rates	5.00%	4.25%
Maturity dates, serially beginning/ending	December 1, 2020	December 1, 2020
Interest payment dates	June 1/ December 1	June 1/ December 1
Callable dates*	December 1, 2019	December 1, 2019
	Road Series 2012	Series 2012
Amounts outstanding, May 31, 2020	\$1,080,000	\$11,735,000
Interest rates	2.70% to 3.15%	2.250% to 3.625%
Maturity dates, serially beginning/ending	December 1, 2020/2022	December 1, 2020/2038
Interest payment dates	June 1/ December 1	June 1/ December 1
Callable dates*	December 1, 2019	December 1, 2019
	Road Series 2013	Series 2013
Amounts outstanding, May 31, 2020	\$1,805,000	\$20,240,000
Interest rates	3.00% to 5.00%	3.00% to 4.75%
Maturity dates, serially beginning/ending	December 1, 2020/2038	December 1, 2020/2038
Interest payment dates	June 1/ December 1	June 1/ December 1
Callable dates*	December 1, 2021	December 1, 2021

*Or any date thereafter, callable at par plus accrued interest to the date of redemption.

Cinco Southwest Municipal Utility District No. 1
Notes to Financial Statements
May 31, 2020

	Series 2014	Refunding Series 2015
Amounts outstanding, May 31, 2020	\$11,740,000	\$18,975,000
Interest rates	2.00% to 4.00%	3.00% to 4.00%
Maturity dates, serially beginning/ending	December 1, 2020/2038	December 1, 2020/2034
Interest payment dates	June 1/ December 1	June 1/ December 1
Callable dates*	December 1, 2022	December 1, 2022
	Refunding Series 2016	Refunding Series 2017
Amounts outstanding, May 31, 2020	\$17,535,000	\$8,695,000
Interest rates	2.00% to 4.00%	3.00% to 4.00%
Maturity dates, serially beginning/ending	December 1, 2020/2034	December 1, 2020/2036
Interest payment dates	June 1/ December 1	June 1/ December 1
Callable dates*	December 1, 2023	December 1, 2024
	Refunding Series 2019	Refunding Series 2019A
Amounts outstanding, May 31, 2020	\$4,780,000	\$10,270,000
Interest rates	4.00%	2.00% to 3.00%
Maturity dates, serially beginning/ending	December 1, 2021/2035	December 1, 2020/2036
Interest payment dates	June 1/ December 1	June 1/ December 1
Callable dates*	December 1, 2024	December 1, 2025

*Or any date thereafter, callable at par plus accrued interest to the date of redemption.

Cinco Southwest Municipal Utility District No. 1
Notes to Financial Statements
May 31, 2020

	Road Refunding Series 2019
Amount outstanding, May 31, 2020	\$11,970,000
Interest rates	2.00% to 3.00%
Maturity dates, serially beginning/ending	December 1, 2020/2038
Interest payment dates	June 1/ December 1
Callable date*	December 1, 2025

*Or any date thereafter, callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on contract revenue bonds outstanding at May 31, 2020:

Business-type Activities

Contract Revenue Bonds

Year	Principal	Interest	Total
2021	\$ 6,885,000	\$ 4,140,582	\$ 11,025,582
2022	6,955,000	3,902,323	10,857,323
2023	6,975,000	3,702,284	10,677,284
2024	7,005,000	3,491,793	10,496,793
2025	7,070,000	3,267,507	10,337,507
2026-2030	36,000,000	12,801,945	48,801,945
2031-2035	36,590,000	6,526,842	43,116,842
2036-2039	13,770,000	1,249,599	15,019,599
Total	\$ 121,250,000	\$ 39,082,875	\$ 160,332,875

Principal and interest on the bonds are payable from and secured by an unconditional obligation to make certain payments by the participating districts in the applicable service area pursuant to the contracts described in Note 7. The participants have each agreed to pay a pro rata share of the debt service of the bonds based on the certified assessed valuation of each participant as a percentage of the total assessed valuation of all participating districts.

Cinco Southwest Municipal Utility District No. 1
Notes to Financial Statements
May 31, 2020

Under the terms of the contract, the District shall calculate and bill on or before September 1 of each year, or as soon thereafter as practical, the amount of contract tax payments due from each participant for the following year. The contract tax payments are payable by the participants semiannually, on March 1 and September 1 of each year, for the June 1 and December 1 debt service requirements. A summary of the participants and their assessed valuations and contract tax payments for the 2020 calendar year is shown as follows:

	Assessed Valuations	Contractual Payments
The District	\$ 21,553,001	\$ 100,797
Cinco Southwest Municipal Utility District No. 2 (District No. 2)	795,496,496	3,726,812
Cinco Southwest Municipal Utility District No. 3 (District No. 3)	681,835,317	3,007,130
Cinco Southwest Municipal Utility District No. 4 (District No. 4)	794,463,637	3,714,664
	\$ 2,293,348,451	\$ 10,549,403

During the current year, each participant levied a contract tax to meet their obligations.

Internal District bonds voted:

Water and sewer tax	\$ 20,000,000
Recreational facilities	5,000,000
Road	10,000,000
Refunding bonds voted	25,000,000
Internal District bonds sold	0
Contract revenue tax and refunding bonds authorized	455,000,000
Contract revenue tax and refunding bonds authorization used	148,347,345
Contract revenue road and refunding bonds authorized	107,000,000
Contract revenue road and refunding bonds authorization used	21,475,000

Note 5: Maintenance Taxes

At an election held November 8, 2005, voters authorized a maintenance tax not to exceed \$1.50 and a road maintenance tax of \$0.25 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2020, the District levied a total ad valorem maintenance tax at the rate of \$0.2000 per \$100 of assessed valuation, which resulted in a tax levy of \$43,115 on the taxable valuation of \$21,557,539 for the 2019 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Cinco Southwest Municipal Utility District No. 1

Notes to Financial Statements

May 31, 2020

Note 6: Contract Taxes

At an election held November 8, 2005, voters authorized a contract tax on all property within the District subject to taxation. During the year ended May 31, 2020, the District levied an ad valorem contract tax at the rate of \$0.4600 per \$100 of assessed valuation, which resulted in a tax levy of \$99,165 on the taxable valuation of \$21,557,539 for the 2019 tax year. This contract tax is used to pay for its pro rata share of principal and interest on the District's contract revenue bonds as described in Note 4.

Note 7: Financing and Operation of Regional Facilities

The District, District No. 2, District No. 3 and District No. 4 entered into a 40-year regional facilities contract on November 17, 2005, amended December 21, 2007, and September 4, 2009. The District agreed to provide or cause to be provided the regional water supply and delivery facilities and the regional waste collection, treatment and disposal facilities necessary to serve the participating districts.

Under the terms of the regional contract, the District charges the participants a monthly operational fee calculated by multiplying the unit cost per connection by the number of equivalent single-family residential connections reserved to each district. In January 2012, the District began charging participating districts for surface water on a volumetric basis. During the current year, the District received \$6,957,618 in revenue related to this agreement.

The District is to maintain an operation and maintenance reserve equivalent to three months of budgeted operation and maintenance expenses.

In addition, the District is authorized to issue contract revenue bonds sufficient to complete acquisition and construction of the facilities as needed to serve all districts in the service area. Each participating district is obligated to pay its pro rata share of the debt service requirements on the District's contract revenue bonds (see Note 4).

Note 8: Strategic Partnership Revenue Pooling Agreement

The District has entered into a Strategic Partnership Revenue Pooling Agreement (the Agreement) with District Nos. 2, 3 and 4, effective October 2, 2009, for a term of 30 years. Whereas District Nos. 2, 3 and 4 have entered into Strategic Partnership Agreements (SPAs) with the City, pursuant to the terms of the Agreement, the District has assumed responsibility of becoming the coordinating district to pool any revenue received from the SPAs in order to finance the acquisition, design, construction, improvement, enlargement, extension, repair, operation and/or maintenance of regional facilities. During the current year, the District received \$456,271 in revenue related to the Agreement.

Cinco Southwest Municipal Utility District No. 1

Notes to Financial Statements

May 31, 2020

Note 9: Regional Water Authority

The District is within the boundaries of the North Fort Bend Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Fort Bend Subsidence District, which regulates groundwater withdrawal. As of May 31, 2020, the Authority was billing the District \$3.95 per 1,000 gallons of water pumped from its wells and \$4.30 per 1,000 gallons of surface water received. These amounts are subject to future increases.

Note 10: 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 participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 11: Refunding Bonds

During the current year, the District issued \$10,270,000 in contract revenue refunding bonds, Series 2019A, to refund \$10,240,000 of outstanding contract revenue Series 2011 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$1,998,955 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,563,962.

During the current year, the District also issued \$11,970,000 in contract revenue road refunding bonds, Series 2019, to refund \$6,160,000 of outstanding contract road revenue Series 2011 bonds and \$5,760,000 of outstanding contract road revenue Series 2012 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$2,339,826 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,778,899.

Note 12: Uncertainties

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the District. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Cinco Southwest Municipal Utility District No. 1
Notes to Financial Statements
May 31, 2020

Note 13: Subsequent Event

In June 2020, the District issued \$9,330,000 in contract revenue refunding bonds, Series 2020, to refund \$9,255,000 of outstanding contract revenue Series 2012 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$599,593 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$472,433.

Required Supplementary Information

Cinco Southwest Municipal Utility District No. 1
Budgetary Comparison Schedule – General Fund
Year Ended May 31, 2020

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 25,000	\$ 142,260	\$ 117,260
Water service	16,500	15,777	(723)
Sewer service	14,500	14,159	(341)
Regional water fee	28,000	30,672	2,672
Penalty and interest	-	981	981
Investment income	700	935	235
	<u>84,700</u>	<u>204,784</u>	<u>120,084</u>
Total revenues			
Expenditures			
Service operations:			
Purchased services	20,590	20,592	(2)
Regional water fee	28,000	30,897	(2,897)
Professional fees	9,000	4,000	5,000
Contracted services	5,900	7,235	(1,335)
Repairs and maintenance	5,000	-	5,000
Other expenditures	6,810	7,278	(468)
Debt service, contractual obligation	-	98,310	(98,310)
	<u>75,300</u>	<u>168,312</u>	<u>(93,012)</u>
Total expenditures			
Excess of Revenues Over Expenditures	9,400	36,472	27,072
Fund Balance, Beginning of Year	<u>368,197</u>	<u>368,197</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 377,597</u>	<u>\$ 404,669</u>	<u>\$ 27,072</u>

Cinco Southwest Municipal Utility District No. 1
Notes to Required Supplementary Information
May 31, 2020

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2020.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Cinco Southwest Municipal Utility District No. 1
Other Schedules Included Within This Report
May 31, 2020

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 18-35
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years, Business-type Activities
- [X] Changes in Long-term Bonded Debt, Business-type Activities
- [X] Comparative Schedule of Revenues and Expenditures – General Fund – Five Years
- [X] Board Members, Key Personnel and Consultants

Cinco Southwest Municipal Utility District No. 1

Schedule of Services and Rates

Year Ended May 31, 2020

1. Services provided by the District:

<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 checked="" type="checkbox"/> Roads
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other _____		

2. Retail service providers

a. Retail rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
Water:	\$ 19.50	1,000	N	\$ 1.05 \$ 1.50	1,001 to 8,000 8,001 to No Limit
Wastewater:	\$ 0.00	1,000	N	\$ 1.50	1,001 to No Limit
Regional water fee:	\$ 4.47	1,000	N	\$ 4.47	1,001 to No Limit

Does the District employ winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage (including fees): Water \$ 74.55 Wastewater \$ 13.50

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC*
Unmetered	-	-	x1.0	-
≤ 3/4"	-	-	x1.0	-
1"	1	1	x2.5	3
1 1/2"	18	16	x5.0	80
2"	-	-	x8.0	-
3"	-	-	x15.0	-
4"	1	1	x25.0	25
6"	1	1	x50.0	50
8"	3	3	x80.0	240
10"	2	2	x115.0	230
Total water	26	24		628
Total wastewater	3	3	x1.0	3

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	1,028,818
Gallons billed to customers:	976,044
Water accountability ratio (gallons billed/gallons pumped):	94.87%

*"ESFC" means equivalent single-family connections

Cinco Southwest Municipal Utility District No. 1
Schedule of General Fund Expenditures
Year Ended May 31, 2020

Personnel (including benefits)		\$ -
Professional Fees		
Auditing	\$ 4,000	
Legal	-	
Engineering	-	
Financial advisor	-	4,000
Purchased Services for Resale		
Bulk water and wastewater service purchases		20,592
Regional Water Fee		30,897
Contracted Services		
Bookkeeping	2,700	
General manager	-	
Appraisal district	-	
Tax collector	1,575	
Security	-	
Other contracted services	2,960	7,235
Utilities		-
Repairs and Maintenance		-
Administrative Expenditures		
Directors' fees	-	
Office supplies	428	
Insurance	5,341	
Other administrative expenditures	1,509	7,278
Capital Outlay		
Capitalized assets	-	
Expenditures not capitalized	-	-
Tap Connection Expenditures		-
Solid Waste Disposal		-
Fire Fighting		-
Parks and Recreation		-
Other Expenditures		98,310
Total expenditures		\$ 168,312

Cinco Southwest Municipal Utility District No. 1
Schedule of Temporary Investments
May 31, 2020

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
Proprietary Fund				
TexPool	0.23%	Demand	\$ 5,476,487	\$ -
TexPool	0.23%	Demand	128,524	-
Fidelity Money Market Fund	0.01%	Demand	10,690,669	-
Fidelity Money Market Fund	0.01%	Demand	4,870,287	-
Fidelity Money Market Fund	0.01%	Demand	1,263,846	-
Fidelity Money Market Fund	0.01%	Demand	710,974	-
Totals			<u>\$ 23,140,787</u>	<u>\$ 0</u>

Cinco Southwest Municipal Utility District No. 1
Analysis of Taxes Levied and Receivable
Year Ended May 31, 2020

	Maintenance Taxes	Contract Taxes
	<u> </u>	<u> </u>
Receivable, Beginning of Year	\$ 0	\$ 0
2019 Original Tax Levy	42,934	98,747
Additions and corrections	<u>181</u>	<u>418</u>
Adjusted tax levy	<u>43,115</u>	<u>99,165</u>
Total to be accounted for	43,115	99,165
Current year tax collections	<u>(43,109)</u>	<u>(99,151)</u>
Receivable, end of year	<u>\$ 6</u>	<u>\$ 14</u>
Receivable, by Years		
2019	<u>\$ 6</u>	<u>\$ 14</u>

Cinco Southwest Municipal Utility District No. 1
Analysis of Taxes Levied and Receivable (Continued)
Year Ended May 31, 2020

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Property Valuations				
Land	\$ 4,181,244	\$ 4,181,244	\$ 3,192,994	\$ 3,195,474
Improvements	17,628,505	16,300,905	14,517,156	16,000,322
Personal property	231,240	341,150	335,210	306,420
Exemptions	<u>(483,450)</u>	<u>(483,450)</u>	<u>(483,450)</u>	<u>(474,260)</u>
Total property valuations	<u>\$ 21,557,539</u>	<u>\$ 20,339,849</u>	<u>\$ 17,561,910</u>	<u>\$ 19,027,956</u>
Tax Rates per \$100 Valuation				
Contract tax rates	\$ 0.4600	\$ 0.4800	\$ 0.5100	\$ 0.5500
Maintenance tax rates*	<u>0.2000</u>	<u>0.2000</u>	<u>0.2500</u>	<u>0.3000</u>
Total tax rates per \$100 valuation	<u>\$ 0.6600</u>	<u>\$ 0.6800</u>	<u>\$ 0.7600</u>	<u>\$ 0.8500</u>
Tax Levy	<u>\$ 142,280</u>	<u>\$ 138,311</u>	<u>\$ 133,471</u>	<u>\$ 161,738</u>
Percent of Taxes Collected to Taxes Levied**				
	<u>99%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

*Maximum tax rate approved by voters: \$1.50 for maintenance and \$0.25 for road maintenance on November 8, 2005

**Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2009A		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	<u>\$ 270,000</u>	<u>\$ 12,420</u>	<u>\$ 282,420</u>

Cinco Southwest Municipal Utility District No. 1

Schedule of Long-term Debt Service Requirements by Years, Business-type Activities (Continued)

May 31, 2020

Due During Fiscal Years Ending May 31	Series 2010		Total
	Principal Due December 1	Interest Due June 1, December 1	
2021	<u>\$ 255,000</u>	<u>\$ 10,965</u>	<u>\$ 265,965</u>

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2010A		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 325,000	\$ 13,406	\$ 338,406

Cinco Southwest Municipal Utility District No. 1

Schedule of Long-term Debt Service Requirements by Years, Business-type Activities (Continued)

May 31, 2020

Due During Fiscal Years Ending May 31	Series 2010B		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	<u>\$ 550,000</u>	<u>\$ 24,750</u>	<u>\$ 574,750</u>

Cinco Southwest Municipal Utility District No. 1

Schedule of Long-term Debt Service Requirements by Years, Business-type Activities (Continued)

May 31, 2020

Due During Fiscal Years Ending May 31	Road Series 2011		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	<u>\$ 385,000</u>	<u>\$ 19,250</u>	<u>\$ 404,250</u>

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2011		Total
	Principal Due December 1	Interest Due June 1, December 1	
2021	<u>\$ 640,000</u>	<u>\$ 27,200</u>	<u>\$ 667,200</u>

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Road Series 2012		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 360,000	\$ 31,860	\$ 391,860
2022	360,000	22,140	382,140
2023	360,000	11,340	371,340
Totals	\$ 1,080,000	\$ 65,340	\$ 1,145,340

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2012		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 620,000	\$ 357,294	\$ 977,294
2022	620,000	343,344	963,344
2023	620,000	329,394	949,394
2024	620,000	313,118	933,118
2025	620,000	296,844	916,844
2026	620,000	279,794	899,794
2027	620,000	262,744	882,744
2028	620,000	244,144	864,144
2029	620,000	225,544	845,544
2030	620,000	206,944	826,944
2031	615,000	188,344	803,344
2032	615,000	169,125	784,125
2033	615,000	149,906	764,906
2034	615,000	129,918	744,918
2035	615,000	109,930	724,930
2036	615,000	88,406	703,406
2037	615,000	66,880	681,880
2038	615,000	44,588	659,588
2039	615,000	22,294	637,294
Totals	<u>\$ 11,735,000</u>	<u>\$ 3,828,555</u>	<u>\$ 15,563,555</u>

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Road Series 2013		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 95,000	\$ 79,444	\$ 174,444
2022	95,000	76,594	171,594
2023	95,000	73,506	168,506
2024	95,000	70,181	165,181
2025	95,000	66,619	161,619
2026	95,000	62,819	157,819
2027	95,000	58,900	153,900
2028	95,000	54,863	149,863
2029	95,000	50,706	145,706
2030	95,000	46,431	141,431
2031	95,000	42,156	137,156
2032	95,000	37,763	132,763
2033	95,000	33,250	128,250
2034	95,000	28,500	123,500
2035	95,000	23,750	118,750
2036	95,000	19,000	114,000
2037	95,000	14,250	109,250
2038	95,000	9,500	104,500
2039	95,000	4,750	99,750
Totals	\$ 1,805,000	\$ 852,982	\$ 2,657,982

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2013		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 1,070,000	\$ 809,550	\$ 1,879,550
2022	1,065,000	777,450	1,842,450
2023	1,065,000	745,500	1,810,500
2024	1,065,000	713,550	1,778,550
2025	1,065,000	681,600	1,746,600
2026	1,065,000	646,988	1,711,988
2027	1,065,000	604,388	1,669,388
2028	1,065,000	561,787	1,626,787
2029	1,065,000	519,187	1,584,187
2030	1,065,000	476,588	1,541,588
2031	1,065,000	433,987	1,498,987
2032	1,065,000	388,725	1,453,725
2033	1,065,000	342,131	1,407,131
2034	1,065,000	295,538	1,360,538
2035	1,065,000	247,613	1,312,613
2036	1,065,000	199,687	1,264,687
2037	1,065,000	150,431	1,215,431
2038	1,065,000	101,175	1,166,175
2039	1,065,000	50,588	1,115,588
Totals	\$ 20,240,000	\$ 8,746,463	\$ 28,986,463

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2014		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 620,000	\$ 386,743	\$ 1,006,743
2022	620,000	374,344	994,344
2023	620,000	361,944	981,944
2024	620,000	343,344	963,344
2025	620,000	324,744	944,744
2026	620,000	306,144	926,144
2027	620,000	287,544	907,544
2028	620,000	268,944	888,944
2029	620,000	250,344	870,344
2030	620,000	230,193	850,193
2031	620,000	210,043	830,043
2032	615,000	188,343	803,343
2033	615,000	166,819	781,819
2034	615,000	144,525	759,525
2035	615,000	121,463	736,463
2036	615,000	98,400	713,400
2037	615,000	73,800	688,800
2038	615,000	49,200	664,200
2039	615,000	24,600	639,600
Totals	\$ 11,740,000	\$ 4,211,481	\$ 15,951,481

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2015		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 1,025,000	\$ 672,731	\$ 1,697,731
2022	1,075,000	631,732	1,706,732
2023	1,105,000	588,731	1,693,731
2024	1,145,000	544,531	1,689,531
2025	1,185,000	498,731	1,683,731
2026	1,230,000	451,332	1,681,332
2027	1,265,000	402,131	1,667,131
2028	1,310,000	351,531	1,661,531
2029	1,350,000	299,131	1,649,131
2030	1,380,000	258,631	1,638,631
2031	1,415,000	217,231	1,632,231
2032	1,440,000	174,781	1,614,781
2033	1,475,000	129,781	1,604,781
2034	1,495,000	83,688	1,578,688
2035	1,080,000	35,100	1,115,100
Totals	\$ 18,975,000	\$ 5,339,793	\$ 24,314,793

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2016		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 450,000	\$ 554,069	\$ 1,004,069
2022	1,015,000	540,569	1,555,569
2023	1,040,000	510,119	1,550,119
2024	1,060,000	478,919	1,538,919
2025	1,105,000	436,519	1,541,519
2026	1,130,000	414,419	1,544,419
2027	1,150,000	388,993	1,538,993
2028	1,170,000	360,243	1,530,243
2029	1,205,000	328,069	1,533,069
2030	1,255,000	279,869	1,534,869
2031	1,290,000	242,219	1,532,219
2032	1,340,000	190,619	1,530,619
2033	1,395,000	137,019	1,532,019
2034	1,440,000	93,425	1,533,425
2035	1,490,000	48,425	1,538,425
Totals	\$ 17,535,000	\$ 5,003,495	\$ 22,538,495

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2017		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 35,000	\$ 335,950	\$ 370,950
2022	580,000	334,900	914,900
2023	570,000	317,500	887,500
2024	560,000	300,400	860,400
2025	560,000	278,000	838,000
2026	560,000	255,600	815,600
2027	555,000	233,200	788,200
2028	550,000	211,000	761,000
2029	550,000	189,000	739,000
2030	545,000	167,000	712,000
2031	540,000	145,200	685,200
2032	535,000	123,600	658,600
2033	525,000	102,200	627,200
2034	520,000	81,200	601,200
2035	510,000	60,400	570,400
2036	505,000	40,000	545,000
2037	495,000	19,800	514,800
Totals	\$ 8,695,000	\$ 3,194,950	\$ 11,889,950

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2019		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ -	\$ 191,200	\$ 191,200
2022	325,000	191,200	516,200
2023	325,000	178,200	503,200
2024	325,000	165,200	490,200
2025	325,000	152,200	477,200
2026	325,000	139,200	464,200
2027	320,000	126,200	446,200
2028	320,000	113,400	433,400
2029	320,000	100,600	420,600
2030	320,000	87,800	407,800
2031	320,000	75,000	395,000
2032	315,000	62,200	377,200
2033	315,000	49,600	364,600
2034	310,000	37,000	347,000
2035	310,000	24,600	334,600
2036	305,000	12,200	317,200
Totals	\$ 4,780,000	\$ 1,705,800	\$ 6,485,800

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2019A		
	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 85,000	\$ 280,275	\$ 365,275
2022	720,000	278,575	998,575
2023	705,000	264,175	969,175
2024	695,000	250,075	945,075
2025	685,000	236,175	921,175
2026	675,000	215,625	890,625
2027	670,000	195,375	865,375
2028	660,000	175,275	835,275
2029	650,000	155,475	805,475
2030	640,000	135,975	775,975
2031	625,000	116,775	741,775
2032	615,000	98,025	713,025
2033	600,000	79,575	679,575
2034	585,000	61,575	646,575
2035	570,000	46,950	616,950
2036	555,000	32,700	587,700
2037	535,000	16,050	551,050
Totals	\$ 10,270,000	\$ 2,638,650	\$ 12,908,650

Cinco Southwest Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements
by Years, Business-type Activities (Continued)
May 31, 2020

Road Refunding Series 2019			
Due During Fiscal Years Ending May 31	Principal Due December 1	Interest Due June 1, December 1	Total
2021	\$ 100,000	\$ 333,475	\$ 433,475
2022	480,000	331,475	811,475
2023	470,000	321,875	791,875
2024	820,000	312,475	1,132,475
2025	810,000	296,075	1,106,075
2026	800,000	271,775	1,071,775
2027	790,000	247,775	1,037,775
2028	780,000	224,075	1,004,075
2029	770,000	200,675	970,675
2030	755,000	177,575	932,575
2031	745,000	154,925	899,925
2032	730,000	132,575	862,575
2033	720,000	110,675	830,675
2034	700,000	89,075	789,075
2035	685,000	71,575	756,575
2036	665,000	54,450	719,450
2037	650,000	34,500	684,500
2038	255,000	15,000	270,000
2039	245,000	7,350	252,350
Totals	<u>\$ 11,970,000</u>	<u>\$ 3,387,375</u>	<u>\$ 15,357,375</u>

Cinco Southwest Municipal Utility District No. 1

Schedule of Long-term Debt Service Requirements by Years, Business-type Activities (Continued)

May 31, 2020

Due During Fiscal Years Ending May 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	\$ 6,885,000	\$ 4,140,582	\$ 11,025,582
2022	6,955,000	3,902,323	10,857,323
2023	6,975,000	3,702,284	10,677,284
2024	7,005,000	3,491,793	10,496,793
2025	7,070,000	3,267,507	10,337,507
2026	7,120,000	3,043,696	10,163,696
2027	7,150,000	2,807,250	9,957,250
2028	7,190,000	2,565,262	9,755,262
2029	7,245,000	2,318,731	9,563,731
2030	7,295,000	2,067,006	9,362,006
2031	7,330,000	1,825,880	9,155,880
2032	7,365,000	1,565,756	8,930,756
2033	7,420,000	1,300,956	8,720,956
2034	7,440,000	1,044,444	8,484,444
2035	7,035,000	789,806	7,824,806
2036	4,420,000	544,843	4,964,843
2037	4,070,000	375,711	4,445,711
2038	2,645,000	219,463	2,864,463
2039	2,635,000	109,582	2,744,582
Totals	\$ 121,250,000	\$ 39,082,875	\$ 160,332,875

Cinco Southwest Municipal Utility District No. 1
Changes in Long-term Bonded Debt, Business-type Activities
Year Ended May 31, 2020

	Bond			
	Series 2009	Series 2009A	Series 2010	Series 2010A
Interest rates	5.00%	4.60%	4.30%	4.125%
Dates interest payable	June 1/ December 1	June 1/ December 1	June 1/ December 1	June 1/ December 1
Maturity dates		December 1, 2020	December 1, 2020	December 1, 2020
Bonds outstanding, beginning of	\$ 225,000	\$ 540,000	\$ 500,000	\$ 655,000
Bonds sold during current year	-	-	-	-
Principal refunded	-	-	-	-
Retirements, principal	225,000	270,000	245,000	330,000
Bonds outstanding, end of current year	\$ 0	\$ 270,000	\$ 255,000	\$ 325,000
Interest paid during current year	\$ 11,250	\$ 24,570	\$ 21,010	\$ 27,019

Paying agent's name and address:

Series 2009	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2009A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2010	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2010A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2010B	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2011	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2011	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012	- The Bank of New York Mellon Trust Company, N.A., Houston, Texas
Series 2012	- The Bank of New York Mellon Trust Company, N.A., Houston, Texas
Series 2013	- The Bank of New York Mellon Trust Company, N.A., Houston, Texas
Series 2013	- The Bank of New York Mellon Trust Company, N.A., Houston, Texas

Bond authority:

	Tax Bonds	Contract Revenue Tax and Refunding Bonds	Contract Revenue Road and Refunding Bonds
Amount authorized by voters	\$ 20,000,000	\$ 455,000,000	\$ 107,000,000
Amount issued	\$ -	\$ 148,347,345	\$ 21,475,000
Remaining to be issued	\$ 20,000,000	\$ 306,652,655	\$ 85,525,000

Debt service fund cash and temporary investment balances as of May 31, 2020:

\$ 17,535,776

Average annual debt service payment (principal and interest) for remaining term of all debt:

\$ 8,438,572

Issues

Series 2010B	Road Series 2011	Series 2011	Road Series 2012	Series 2012	Road Series 2013	Series 2013
4.50%	5.00%	4.25%	2.70% to 3.15%	2.250% to 3.625%	3.00% to 5.00%	3.00% to 4.75%
June 1/ December 1	June 1/ December 1	June 1/ December 1	June 1/ December 1	June 1/ December 1	June 1/ December 1	June 1/ December 1
December 1, 2020	December 1, 2020	December 1, 2020	December 1, 2020/2022	December 1, 2020/2038	December 1, 2020/2038	December 1, 2020/2038
\$ 1,100,000	\$ 6,930,000	\$ 11,525,000	\$ 7,200,000	\$ 12,355,000	\$ 1,900,000	\$ 21,310,000
-	-	-	-	-	-	-
-	6,160,000	10,240,000	5,760,000	-	-	-
<u>550,000</u>	<u>385,000</u>	<u>645,000</u>	<u>360,000</u>	<u>620,000</u>	<u>95,000</u>	<u>1,070,000</u>
<u>\$ 550,000</u>	<u>\$ 385,000</u>	<u>\$ 640,000</u>	<u>\$ 1,080,000</u>	<u>\$ 11,735,000</u>	<u>\$ 1,805,000</u>	<u>\$ 20,240,000</u>
<u>\$ 49,500</u>	<u>\$ 196,831</u>	<u>\$ 292,453</u>	<u>\$ 157,275</u>	<u>\$ 375,894</u>	<u>\$ 82,293</u>	<u>\$ 841,650</u>

Cinco Southwest Municipal Utility District No. 1
Changes in Long-term Bonded Debt, Business-type Activities (Continued)
Year Ended May 31, 2020

	Bond		
	Series 2014	Refunding Series 2015	Refunding Series 2016
Interest rates	2.00% to 4.00%	3.00% to 4.00%	2.00% to 4.00%
Dates interest payable	June 1/ December 1	June 1/ December 1	June 1/ December 1
Maturity dates	December 1, 2020/2038	December 1, 2020/2034	December 1, 2020/2034
Bonds outstanding, beginning of	\$ 12,360,000	\$ 19,965,000	\$ 17,735,000
Bonds sold during current year	-	-	-
Principal refunded	-	-	-
Retirements, principal	620,000	990,000	200,000
Bonds outstanding, end of current year	\$ 11,740,000	\$ 18,975,000	\$ 17,535,000
Interest paid during current year	\$ 399,143	\$ 712,331	\$ 560,069
Paying agent's name and address:			
Series 2014	- <u>The Bank of New York Mellon Trust Company, N.A., Houston, Texas</u>		
Series 2015	- <u>The Bank of New York Mellon Trust Company, N.A., Houston, Texas</u>		
Series 2016	- <u>The Bank of New York Mellon Trust Company, N.A., Houston, Texas</u>		
Series 2017	- <u>The Bank of New York Mellon Trust Company, N.A., Houston, Texas</u>		
Series 2019	- <u>The Bank of New York Mellon Trust Company, N.A., Houston, Texas</u>		
Series 2019	- <u>The Bank of New York Mellon Trust Company, N.A., Houston, Texas</u>		
Series 2019A	- <u>The Bank of New York Mellon Trust Company, N.A., Houston, Texas</u>		

Issues

Refunding Series 2017	Refunding Series 2019	Refunding Series 2019A	Road Refunding Series 2019	Totals
3.00% to 4.00%	4.00%	2.00% to 3.00%	2.00% to 3.00%	
June 1/ December 1	June 1/ December 1	June 1/ December 1	June 1/ December 1	
December 1, 2020/2036	December 1, 2021/2035	December 1, 2020/2036	December 1, 2020/2038	
\$ 8,725,000	\$ 4,840,000	\$ -	\$ -	\$ 127,865,000
-	-	10,270,000	11,970,000	22,240,000
-	-	-	-	22,160,000
30,000	60,000	-	-	6,695,000
<u>\$ 8,695,000</u>	<u>\$ 4,780,000</u>	<u>\$ 10,270,000</u>	<u>\$ 11,970,000</u>	<u>\$ 121,250,000</u>
<u>\$ 336,850</u>	<u>\$ 145,200</u>	<u>\$ 70,069</u>	<u>\$ 83,369</u>	<u>\$ 4,386,776</u>

Cinco Southwest Municipal Utility District No. 1
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended May 31,

	Amounts				
	2020	2019	2018	2017	2016
General Fund					
Revenues					
Property taxes	\$ 142,260	\$ 138,091	\$ 133,118	\$ 150,427	\$ 174,253
Water service	15,777	16,080	23,672	15,623	13,425
Sewer service	14,159	14,123	22,079	12,703	11,892
Regional water fee	30,672	28,178	24,744	22,472	18,783
Penalty and interest	981	496	10	884	12,694
Investment income	935	856	766	420	301
	<u>204,784</u>	<u>197,824</u>	<u>204,389</u>	<u>202,529</u>	<u>231,348</u>
Total revenues					
Expenditures					
Service operations:					
Purchased services	20,592	20,592	26,532	26,532	26,532
Regional water fee	30,897	28,743	25,755	22,189	19,030
Professional fees	4,000	3,800	3,302	3,000	2,700
Contracted services	7,235	7,560	7,560	7,060	7,580
Repairs and maintenance	-	486	62	-	-
Other expenditures	7,278	6,973	6,949	7,619	7,247
Debt service, contractual obligation	98,310	92,513	95,441	107,063	94,056
	<u>168,312</u>	<u>160,667</u>	<u>165,601</u>	<u>173,463</u>	<u>157,145</u>
Total expenditures					
Excess of Revenues Over Expenditures	36,472	37,157	38,788	29,066	74,203
Fund Balance, Beginning of Year	<u>368,197</u>	<u>331,040</u>	<u>292,252</u>	<u>263,186</u>	<u>188,983</u>
Fund Balance, End of Year	<u>\$ 404,669</u>	<u>\$ 368,197</u>	<u>\$ 331,040</u>	<u>\$ 292,252</u>	<u>\$ 263,186</u>
Total Active Retail Water Connections	<u>24</u>	<u>37</u>	<u>38</u>	<u>38</u>	<u>38</u>
Total Active Retail Wastewater Connections	<u>3</u>	<u>3</u>	<u>3</u>	<u>4</u>	<u>3</u>

Percent of Fund Total Revenues

2020	2019	2018	2017	2016
69.5 %	69.8 %	65.1 %	74.3 %	75.3 %
7.7	8.1	11.6	7.7	5.8
6.9	7.2	10.8	6.3	5.1
15.0	14.2	12.1	11.1	8.1
0.5	0.3	0.0	0.4	5.5
0.4	0.4	0.4	0.2	0.2
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
10.1	10.4	13.0	13.1	11.5
15.1	14.5	12.6	11.0	8.2
1.9	1.9	1.6	1.5	1.2
3.5	3.8	3.7	3.5	3.3
-	0.3	0.0	-	-
3.6	3.5	3.4	3.8	3.1
<u>48.0</u>	<u>46.8</u>	<u>46.7</u>	<u>52.9</u>	<u>40.6</u>
<u>82.2</u>	<u>81.2</u>	<u>81.0</u>	<u>85.8</u>	<u>67.9</u>
<u><u>17.8 %</u></u>	<u><u>18.8 %</u></u>	<u><u>19.0 %</u></u>	<u><u>14.2 %</u></u>	<u><u>32.1 %</u></u>

Cinco Southwest Municipal Utility District No. 1
Board Members, Key Personnel and Consultants
Year Ended May 31, 2020

Complete District mailing address:	Cinco Southwest Municipal Utility District No. 1 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	<u>September 5, 2019</u>
Limit on fees of office that a director may receive during a fiscal year:	<u>\$ 7,200</u>

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Jack McClure	Elected 05/18- 05/22	\$ 4,800	\$ 1,023	President
Chester Pleasant	Appointed 05/18- 05/22	6,000	2,974	Vice President
Larry W. Peterson	Elected 05/20- 05/24	3,750	576	Secretary
Harold R. Joseph, Jr.	Elected 05/20- 05/24	1,500	116	Assistant Vice President
Blair M. Bozoarth	Appointed 09/19- 05/22	1,500	208	Assistant Secretary

*Fees are the amounts actually paid to a director during the District's fiscal year.

Cinco Southwest Municipal Utility District No. 1
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2020

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	07/08/05	\$ 112,579 222,816	General Counsel Bond Counsel
BGE, Inc.	10/03/12	132,456	Engineer
BKD, LLP	04/24/06	27,900	Auditor
Champions Hydro-Lawn, Inc.	07/08/05	329,286	Maintenance
FMatuska, Inc.	07/08/05	19,053	Bookkeeper
Fort Bend Central Appraisal District	Legislative Action	960	Appraiser
Inframark, LLC	07/08/05	1,668,525	Operator
Masterson Advisors LLC	05/04/18	226,409	Financial Advisor
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/27/06	0	Delinquent Tax Attorney
TBG Partners	09/15/07	26,130	Landscape Architect
Utility Tax Service, LLC	07/08/05	2,075	Tax Assessor/ Collector
Investment Officer			
Fran Matuska	07/08/05	N/A	Bookkeeper

Cinco Southwest Municipal Utility District No. 2

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2020



Cinco Southwest Municipal Utility District No. 2
May 31, 2020

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Independent Auditor's Report

Board of Directors
Cinco Southwest Municipal Utility District No. 2
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Cinco Southwest Municipal Utility District No. 2 (the District), as of and for the year ended May 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 entity'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 May 31, 2020, and the respective changes in financial position thereof 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 budgetary comparison schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
October 2, 2020

Cinco Southwest Municipal Utility District No. 2

Management's Discussion and Analysis

May 31, 2020

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Cinco Southwest Municipal Utility District No. 2

Management's Discussion and Analysis (Continued)

May 31, 2020

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Cinco Southwest Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
May 31, 2020

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	2020	2019
Current and other assets	\$ 11,753,064	\$ 10,918,374
Capital assets	14,727,282	15,287,659
Total assets	26,480,346	26,206,033
Deferred outflows of resources	2,435,726	2,501,142
Total assets and deferred outflows of resources	\$ 28,916,072	\$ 28,707,175
Long-term liabilities	\$ 24,236,870	\$ 25,071,308
Other liabilities	902,366	884,922
Total liabilities	25,139,236	25,956,230
Net position:		
Net investment in capital assets	(7,073,862)	(7,282,507)
Restricted	4,883,827	4,869,250
Unrestricted	5,966,871	5,164,202
Total net position	\$ 3,776,836	\$ 2,750,945

The total net position of the District increased by \$1,025,891, or about 37 percent. The majority of the increase in net position is related to property taxes and charges for services revenues in excess of services, debt service and contractual obligation expenses. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Cinco Southwest Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
May 31, 2020

Summary of Changes in Net Position

	<u>2020</u>	<u>2019</u>
Revenues:		
Property taxes	\$ 7,317,076	\$ 7,084,546
Charges for services	2,532,051	2,336,211
Other revenues	337,334	298,334
	<hr/>	<hr/>
Total revenues	10,186,461	9,719,091
	<hr/>	<hr/>
Expenses:		
Services	3,641,935	3,043,424
Depreciation	560,377	560,376
Debt service	1,246,243	1,036,372
Contractual obligation	3,712,015	3,802,308
	<hr/>	<hr/>
Total expenses	9,160,570	8,442,480
	<hr/>	<hr/>
Change in net position	1,025,891	1,276,611
Net position, beginning of year	2,750,945	1,474,334
	<hr/>	<hr/>
Net position, end of year	<u>\$ 3,776,836</u>	<u>\$ 2,750,945</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended May 31, 2020, were \$10,867,827, an increase of \$709,480 from the prior year.

The general fund's fund balance increased by \$786,874 due to property taxes, services and tap connection and inspection fees revenues exceeding service operations and capital outlay expenditures.

The debt service fund's fund balance decreased by \$77,394 because bond principal and interest requirements, contractual obligation and other expenditures were greater than tax revenues generated.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to property taxes, tap connection and inspection fees, and regional water authority revenues and related expenditures being greater than anticipated, as well as repairs and maintenance and capital outlay expenditures being less than anticipated. The fund balance as of May 31, 2020, was expected to be \$5,480,199 and the actual end-of-year fund balance was \$5,936,137.

Cinco Southwest Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
May 31, 2020

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below:

Capital Assets (Net of Accumulated Depreciation)

	2020	2019
Land and improvements	\$ 651,500	\$ 651,500
Water facilities	2,991,652	3,083,207
Wastewater facilities	4,246,968	4,376,396
Drainage facilities	5,166,714	5,320,772
Roads	1,670,448	1,855,784
Total capital assets	\$ 14,727,282	\$ 15,287,659

During the current year, there were no additions to capital assets.

Debt

The changes in the debt position of the District during the fiscal year ended May 31, 2020, are summarized as follows:

Long-term debt payable, beginning of year	\$ 25,071,308
Increases in long-term debt	7,774,470
Decreases in long-term debt	(8,608,908)
Long-term debt payable, end of year	\$ 24,236,870

At May 31, 2020, the District had \$250,605,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$14,425,000 of unlimited tax bonds authorized, but unissued, for the purpose of purchasing, constructing and maintaining roads; and \$24,730,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving recreational facilities.

On June 5, 2019, the District issued \$2,305,000 in Unlimited Tax Park Refunding Bonds, Series 2019, to refund \$2,190,000 of outstanding Series 2011 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$287,393 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$221,514.

Cinco Southwest Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
May 31, 2020

On November 12, 2019, the District issued \$5,270,000 in Unlimited Tax Refunding Bonds, Series 2019A, to refund \$185,000 of outstanding Series 2009 bonds, \$910,000 of outstanding Series 2012A bonds and \$4,115,000 of outstanding Refunding Series 2012 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$380,575 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$297,682.

The District's bonds have an underlying rating of "A2" from Moody's Investors Service. The Series 2011, Refunding Series 2012, Series 2012A, Series 2012B, Refunding Series 2015, and Refunding Series 2019 bonds carry a rating of "AA" from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Road Refunding Series 2016 and Refunding Series 2019A bonds carry a rating of "AA" from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company.

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City for full purposes without the District's consent, except as set forth below.

Effective December 20, 2007, the District entered into a Strategic Partnership Agreement (the Agreement) with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years, at which time the City has the option to annex the District if it chooses to do so.

Cinco Southwest Municipal Utility District No. 2
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2020

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 157,436	\$ 144,183	\$ 301,619	\$ -	\$ 301,619
Short-term investments	6,186,269	4,811,309	10,997,578	-	10,997,578
Receivables:					
Property taxes	30,734	118,569	149,303	-	149,303
Service accounts	159,591	-	159,591	-	159,591
Accrued penalty and interest	-	-	-	28,800	28,800
Due from City of Houston	85,011	-	85,011	30,000	115,011
Prepaid expenditures	1,162	-	1,162	-	1,162
Interfund receivable	23,465	-	23,465	(23,465)	-
Capital assets (net of accumulated depreciation):					
Land and improvements	-	-	-	651,500	651,500
Infrastructure	-	-	-	12,405,334	12,405,334
Roads	-	-	-	1,670,448	1,670,448
Total assets	6,643,668	5,074,061	11,717,729	14,762,617	26,480,346
Deferred Outflows of Resources					
Deferred amount on debt refundings	0	0	0	2,435,726	2,435,726
Total assets and deferred outflows of resources	\$ 6,643,668	\$ 5,074,061	\$ 11,717,729	\$ 17,198,343	\$ 28,916,072

Cinco Southwest Municipal Utility District No. 2
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
May 31, 2020

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Liabilities					
Accounts payable	\$ 299,946	\$ 337	\$ 300,283	\$ -	\$ 300,283
Accrued interest payable	-	-	-	195,232	195,232
Customer deposits	201,840	-	201,840	-	201,840
Due to others	175,011	-	175,011	30,000	205,011
Interfund payables	-	23,465	23,465	(23,465)	-
Long-term liabilities:					
Due within one year	-	-	-	1,350,000	1,350,000
Due after one year	-	-	-	22,886,870	22,886,870
Total liabilities	676,797	23,802	700,599	24,438,637	25,139,236
Deferred Inflows of Resources					
Deferred property tax revenues	30,734	118,569	149,303	(149,303)	0
Fund Balances/Net Position					
Fund balances:					
Nonspendable, prepaid expenditures	1,162	-	1,162	(1,162)	-
Restricted:					
Utility bonds	-	3,942,802	3,942,802	(3,942,802)	-
Road bonds	-	988,888	988,888	(988,888)	-
Unassigned	5,934,975	-	5,934,975	(5,934,975)	-
Total fund balances	5,936,137	4,931,690	10,867,827	(10,867,827)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 6,643,668	\$ 5,074,061	\$ 11,717,729		
Net position:					
Net investment in capital assets				(7,073,862)	(7,073,862)
Restricted for debt service				4,883,827	4,883,827
Unrestricted				5,966,871	5,966,871
Total net position				\$ 3,776,836	\$ 3,776,836

Cinco Southwest Municipal Utility District No. 2
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended May 31, 2020

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues					
Property taxes	\$ 1,557,988	\$ 5,693,953	\$ 7,251,941	\$ 65,135	\$ 7,317,076
Water service	969,214	-	969,214	-	969,214
Sewer service	232,994	-	232,994	-	232,994
Regional water authority	1,329,843	-	1,329,843	-	1,329,843
Penalty and interest	21,881	32,785	54,666	9,974	64,640
Tap connection and inspection fees	85,686	-	85,686	-	85,686
Investment income	89,332	53,668	143,000	-	143,000
Other income	44,008	-	44,008	-	44,008
	<u>4,330,946</u>	<u>5,780,406</u>	<u>10,111,352</u>	<u>75,109</u>	<u>10,186,461</u>
Expenditures/Expenses					
Service operations:					
Purchased services	994,422	-	994,422	-	994,422
Regional water authority	1,338,891	-	1,338,891	-	1,338,891
Professional fees	134,331	-	134,331	-	134,331
Contracted services	149,117	27,985	177,102	-	177,102
Solid waste	379,001	-	379,001	-	379,001
Repairs and maintenance	117,268	-	117,268	359,356	476,624
Other expenditures	40,377	69,878	110,255	-	110,255
Tap connections	31,309	-	31,309	-	31,309
Capital outlay	359,356	-	359,356	(359,356)	-
Depreciation	-	-	-	560,377	560,377
Debt service:					
Principal retirement	-	1,235,000	1,235,000	(1,235,000)	-
Interest and fees	-	787,691	787,691	139,922	927,613
Debt issuance costs	-	318,630	318,630	-	318,630
Debt defeasance	-	35,000	35,000	(35,000)	-
Contractual obligation	-	3,712,015	3,712,015	-	3,712,015
	<u>3,544,072</u>	<u>6,186,199</u>	<u>9,730,271</u>	<u>(569,701)</u>	<u>9,160,570</u>
Excess (Deficiency) of Revenues Over Expenditures					
	<u>786,874</u>	<u>(405,793)</u>	<u>381,081</u>	<u>(494,592)</u>	

Cinco Southwest Municipal Utility District No. 2
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances (Continued)
Year Ended May 31, 2020

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Other Financing Sources (Uses)					
General obligation bonds issued	\$ -	\$ 7,575,000	\$ 7,575,000	\$ (7,575,000)	
Premium on debt issued	-	199,470	199,470	(199,470)	
Deposit with escrow agent	-	(7,446,071)	(7,446,071)	7,446,071	
	<u>0</u>	<u>328,399</u>	<u>328,399</u>	<u>(328,399)</u>	
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	786,874	(77,394)	709,480	(709,480)	
Change in Net Position				1,025,891	\$ 1,025,891
Fund Balances/Net Position					
Beginning of year	<u>5,149,263</u>	<u>5,009,084</u>	<u>10,158,347</u>	<u>-</u>	<u>2,750,945</u>
End of year	<u>\$ 5,936,137</u>	<u>\$ 4,931,690</u>	<u>\$ 10,867,827</u>	<u>\$ 0</u>	<u>\$ 3,776,836</u>

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Cinco Southwest Municipal Utility District No. 2 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective May 11, 2005. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. The District also provides solid waste disposal service.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2020

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2020

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2020

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2020

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended May 31, 2020, include collections during the current period or within 60 days of year-end related to the 2019 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended May 31, 2020, the 2019 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45
Roads	10-45

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2020

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 14,727,282
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	149,303
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	28,800
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	2,435,726

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2020

Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds. \$ (195,232)

Long-term debt obligations are not due and payable in the current period and are not reported in the funds. (24,236,870)

Adjustment to fund balances to arrive at net position. \$ (7,090,991)

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances. \$ 709,480

Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense and noncapitalized costs exceeded capital outlay expenditures in the current year. (560,377)

Governmental funds report proceeds from the sale of bonds because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position. 1,141,071

Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. (199,470)

Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities. 75,109

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in government funds. (139,922)

Change in net position of governmental activities. \$ 1,025,891

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2020

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At May 31, 2020, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At May 31, 2020, the District had the investments and maturities shown as follows:

Type	Maturities in Years				
	Amortized Costs	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 10,997,578	\$ 10,997,578	\$ 0	\$ 0	\$ 0

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2020

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2020, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheet and statement of net position at May 31, 2020, as follows:

Carrying value:		
Deposits	\$	301,619
Investments		10,997,578
Total	\$	11,299,197

Investment Income

Investment income of \$143,000 for the year ended May 31, 2020, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended May 31, 2020, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 651,500	\$ 0	\$ 651,500
Capital assets, depreciable:			
Water production and distribution facilities	4,024,103	-	4,024,103
Wastewater collection and treatment facilities	5,807,415	-	5,807,415
Drainage facilities	6,910,830	-	6,910,830
Roads	3,706,724	-	3,706,724
Total capital assets, depreciable	20,449,072	0	20,449,072

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2020

Governmental Activities (Continued)	Balances, Beginning of Year	Additions	Balances, End of Year
Less accumulated depreciation:			
Water production and distribution facilities	\$ (940,896)	\$ (91,555)	\$ (1,032,451)
Wastewater collection and treatment facilities	(1,431,019)	(129,428)	(1,560,447)
Drainage facilities	(1,590,058)	(154,058)	(1,744,116)
Roads	(1,850,940)	(185,336)	(2,036,276)
Total accumulated depreciation	<u>(5,812,913)</u>	<u>(560,377)</u>	<u>(6,373,290)</u>
Total governmental activities, net	<u>\$ 15,287,659</u>	<u>\$ (560,377)</u>	<u>\$ 14,727,282</u>

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended May 31, 2020, were as follows:

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
General obligation bonds	\$ 24,510,000	\$ 7,575,000	\$ 8,635,000	\$ 23,450,000	\$ 1,350,000
Less discounts on bonds	190,708	-	134,901	55,807	-
Add premiums on bonds	752,016	199,470	108,809	842,677	-
Total governmental activities long-term liabilities	<u>\$ 25,071,308</u>	<u>\$ 7,774,470</u>	<u>\$ 8,608,908</u>	<u>\$ 24,236,870</u>	<u>\$ 1,350,000</u>

General Obligation Bonds

	Series 2009	Road Series 2009
Amounts outstanding, May, 31, 2020	\$360,000	\$185,000
Interest rates	6.00%	4.80%
Maturity dates, serially beginning/ending	September 1, 2020	September 1, 2020
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2018	September 1, 2018

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2020

	Series 2011	Refunding Series 2012
Amounts outstanding, May, 31, 2020	\$555,000	\$910,000
Interest rates	3.50% to 3.90%	3.00%
Maturity dates, serially beginning/ending	September 1, 2020/2022	September 1, 2020/2022
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2019	September 1, 2019
	Series 2012A	Series 2012B
Amounts outstanding, May, 31, 2020	\$325,000	\$760,000
Interest rates	3.00%	3.00% to 5.50%
Maturity dates, serially beginning/ending	September 1, 2020/2024	September 1, 2020/2038
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2019	September 1, 2019
	Refunding Series 2015	Road Refunding Series 2016
Amounts outstanding, May, 31, 2020	\$8,740,000	\$4,040,000
Interest rates	3.00% to 4.00%	3.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2020/2034	September 1, 2020/2034
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2022	September 1, 2022
	Refunding Series 2019	Refunding Series 2019A
Amounts outstanding, May, 31, 2020	\$2,305,000	\$5,270,000
Interest rates	2.00% to 3.00%	2.00% to 3.00%
Maturity dates, serially beginning/ending	September 1, 2020/2034	September 1, 2020/2038
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2024	September 1, 2025

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2020

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at May 31, 2020:

Year	Principal	Interest	Total
2021	\$ 1,350,000	\$ 683,626	\$ 2,033,626
2022	1,370,000	707,250	2,077,250
2023	1,395,000	664,095	2,059,095
2024	1,430,000	630,456	2,060,456
2025	1,465,000	589,225	2,054,225
2026-2030	7,805,000	2,229,450	10,034,450
2031-2035	8,290,000	831,050	9,121,050
2036-2039	345,000	24,850	369,850
Total	<u>\$ 23,450,000</u>	<u>\$ 6,360,002</u>	<u>\$ 29,810,002</u>

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

Bonds voted:

Water, sewer and drainage	\$ 270,000,000
Roads	20,000,000
Parks and recreation	30,000,000
Refunding	270,000,000

Bonds sold:

Water, sewer and drainage	19,395,000
Roads	5,575,000
Parks and recreation	5,270,000
Refunding authorization used	2,435,000

Note 5: Significant Bond Resolution and Commission Requirements

- A. The Bond Resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay principal and interest on bonds when due. During the year ended May 31, 2020, the District levied an ad valorem debt service tax at the rate of \$0.2250 per \$100 of assessed valuation, which resulted in a tax levy of \$1,772,050 on the taxable valuation of \$787,577,618 for the 2019 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$1,739,048 of which \$287,824 has been paid and \$1,451,224 is due September 1, 2020.

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2020

- B. The Bond Resolutions require that the District levy and collect an ad valorem road debt service tax sufficient to pay principal and interest on road bonds when due. During the year ended May 31, 2020, the District levied an ad valorem road debt service tax at the rate of \$0.0350 per \$100 of assessed valuation, which resulted in a tax levy of \$275,652 on the taxable valuation of \$787,577,618 for 2019 tax year. The interest and principal requirements to be paid from the road debt service tax revenues and available resources are \$368,480 of which \$79,240 has been paid and \$289,240 is due September 1, 2020.

Note 6: Maintenance Taxes

At an election held November 8, 2005, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2020, the District levied an ad valorem maintenance tax at the rate of \$0.2000 per \$100 of assessed valuation, which resulted in a tax levy of \$1,575,155 on the taxable valuation of \$787,577,618 for the 2019 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

At an election held November 6, 2007, voters authorized a road maintenance tax not to exceed \$0.25 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2020, the District did not levy an ad valorem road maintenance tax for the 2019 tax year. The road maintenance tax will be used by the general fund to pay expenditures for maintenance of certain roads within the District.

Note 7: Contract Taxes

At an election held November 8, 2005, voters authorized a contract tax on all property within the District subject to taxation. During the year ended May 31, 2020, the District levied an ad valorem contract tax at the rate of \$0.4700 per \$100 of assessed valuation, which resulted in a tax levy of \$3,701,615 on the taxable valuation of \$787,577,618 for 2019 tax year. This contract tax is used to pay for its pro rata share of principal and interest on the District's contract revenue bonds as described in Note 9.

Note 8: Regional Water Authority

The District is within the boundaries of the North Fort Bend Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water

Cinco Southwest Municipal Utility District No. 2
Notes to Financial Statements
May 31, 2020

in order to meet conversion requirements mandated by the Fort Bend Subsidence District, which regulates groundwater withdrawal. As of May 31, 2020, the Authority was billing District No. 1 \$3.95 per 1,000 gallons of water pumped from its wells and \$4.30 per 1,000 gallons of surface water received. These amounts are subject to future increases.

Note 9: Financing and Operating of Regional Facilities

On November 16, 2007, the District entered into a regional contract with District No. 1. District No. 1 agreed to provide, or cause to be provided, the regional water supply and delivery facilities and the regional waste collection, treatment and disposal facilities and certain roads necessary to serve the District. Under the terms of the regional contract, which is in effect for 40 years, District No. 1 charges the District a monthly operational fee calculated by multiplying the unit cost per connection by the number of equivalent single-family residential connections reserved to each participant. For the year ended May 31, 2020, the District incurred fees totaling \$994,422 for purchased services.

In addition, District No. 1 is authorized to issue contract revenue bonds sufficient to complete acquisition and construction of the facilities as needed to serve all districts in the service area. Each participating district contributes to the payment of debt service requirements of the bonds, based on the certified assessed valuation of each participant as a percentage of the total assessed valuation of all participating districts. During the current year, the District paid \$3,712,015 for its pro rata share (approximately 35 percent) of the principal and interest of District No. 1's bonds with such sums derived from contract taxes as described in Note 7.

The debt service requirements on District No. 1's bonds outstanding, as disclosed in its annual financial report as of May 31, 2020, are as follows:

Year	Principal	Interest	Total
2021	\$ 6,885,000	\$ 4,140,582	\$ 11,025,582
2022	6,955,000	3,902,323	10,857,323
2023	6,975,000	3,702,284	10,677,284
2024	7,005,000	3,491,793	10,496,793
2025	7,070,000	3,267,507	10,337,507
2026-2030	36,000,000	12,801,945	48,801,945
2031-2035	36,590,000	6,526,842	43,116,842
2036-2039	13,770,000	1,249,599	15,019,599
Total	<u>\$ 121,250,000</u>	<u>\$ 39,082,875</u>	<u>\$ 160,332,875</u>

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2020

Note 10: Strategic Partnership Agreement

The District has entered into a Strategic Partnership Agreement (the Agreement) with the City of Houston (the City). Pursuant to the terms of the Agreement, certain commercial tracts (currently undeveloped) within the District have been annexed into the City for limited purposes and the City has imposed a 1 percent sales and use tax (but no property tax) within the areas of limited-purpose annexation and agreed to remit one-half of such sales and use tax to the District to be used for any lawful District purpose. The District, along with the other districts in the Cinco Ranch Development, has agreed to utilize the Agreement revenue to pay joint operating and maintenance costs. District No. 1, by agreement with districts in its service area, will manage the expenditure of the Agreement revenues. Such revenues are not available to pay the principal of or interest on the bonds.

The Agreement further provides that the City may not annex the District for "full purposes" until 30 years from the effective date of the Agreement, as amended in 2010 (December 5, 2007). Prior to the full purpose annexation of the District, property within the District is not subject to the City's ad valorem property tax and District residents are not allowed to vote in City elections for bond issues or charter amendments.

Note 11: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 12: Refunding Bonds

On June 5, 2019, the District issued \$2,305,000 in Unlimited Tax Park Refunding Bonds, Series 2019, to refund \$2,190,000 of outstanding Series 2011 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$287,393 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$221,514.

On November 12, 2019, the District issued \$5,270,000 in Unlimited Tax Refunding Bonds, Series 2019A, to refund \$185,000 of outstanding Series 2009 bonds, \$910,000 of outstanding Series 2012A bonds and \$4,115,000 of outstanding Refunding Series 2012 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$380,575 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$297,682.

Cinco Southwest Municipal Utility District No. 2

Notes to Financial Statements

May 31, 2020

Note 13: Uncertainties

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position and results of operations of the District. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Required Supplementary Information

Cinco Southwest Municipal Utility District No. 2
Budgetary Comparison Schedule – General Fund
Year Ended May 31, 2020

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 1,300,000	\$ 1,300,000	\$ 1,557,988	\$ 257,988
Water service	940,000	940,000	969,214	29,214
Sewer service	220,000	220,000	232,994	12,994
Regional water authority	1,288,800	1,288,800	1,329,843	41,043
Penalty and interest	20,000	20,000	21,881	1,881
Tap connection and inspection fees	19,000	19,000	85,686	66,686
Investment income	100,000	100,000	89,332	(10,668)
Other income	30,000	30,000	44,008	14,008
Total revenues	3,917,800	3,917,800	4,330,946	413,146
Expenditures				
Service operations:				
Purchased services	993,564	993,564	994,422	(858)
Regional water authority	1,288,800	1,288,800	1,338,891	(50,091)
Professional fees	115,000	115,000	134,331	(19,331)
Contracted services	153,500	153,500	149,117	4,383
Solid waste	377,000	377,000	379,001	(2,001)
Repairs and maintenance	159,000	159,000	117,268	41,732
Other expenditures	70,000	74,000	40,377	33,623
Tap connections	16,000	16,000	31,309	(15,309)
Capital outlay	-	410,000	359,356	50,644
Total expenditures	3,172,864	3,586,864	3,544,072	42,792
Excess of Revenues Over Expenditures	744,936	330,936	786,874	455,938
Fund Balance, Beginning of Year	5,149,263	5,149,263	5,149,263	-
Fund Balance, End of Year	\$ 5,894,199	\$ 5,480,199	\$ 5,936,137	\$ 455,938

Cinco Southwest Municipal Utility District No. 2
Notes to Required Supplementary Information
May 31, 2020

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was amended during fiscal 2020.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Cinco Southwest Municipal Utility District No. 2
Other Schedules Included Within This Report
May 31, 2020

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 13-28
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Cinco Southwest Municipal Utility District No. 2

Schedule of Services and Rates

Year Ended May 31, 2020

1. Services provided by the District:

<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 checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input checked="" type="checkbox"/> Roads
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other _____		

2. Retail service providers

a. Retail rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
Water:	\$ 13.25	1,000	N	\$ 1.05	1,001 to 30,000
				\$ 1.50	30,001 to No Limit
Wastewater:	\$ 13.25	1,000	N	\$ 1.45	1,001 to No Limit
Regional water fee:	\$ 4.47	1	N	\$ 4.47	1,001 to No Limit
Does the District employ winter averaging for wastewater usage?					Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Total charges per 10,000 gallons usage (including fees):				Water \$ 67.40	Wastewater \$ 26.30

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC*
Unmetered	-	-	x1.0	-
≤ 3/4"	1,407	1,406	x1.0	1,406
1"	447	446	x2.5	1,115
1 1/2"	18	18	x5.0	90
2"	56	56	x8.0	448
3"	2	2	x15.0	30
4"	1	1	x25.0	25
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	1,931	1,929		3,114
Total wastewater	1,834	1,832	x1.0	1,832

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	315,006
Gallons billed to customers:	315,006
Water accountability ratio (gallons billed/gallons pumped):	100.00%

*"ESFC" means equivalent single-family connections

Cinco Southwest Municipal Utility District No. 2
Schedule of General Fund Expenditures
Year Ended May 31, 2020

Personnel (including benefits)		\$ -
Professional Fees		
Auditing	\$ 19,200	
Legal	101,992	
Engineering	13,139	
Financial advisor	<u>-</u>	134,331
Purchased Services for Resale		
Bulk water and wastewater service purchases		994,422
Regional Water Fee		1,338,891
Contracted Services		
Bookkeeping	12,584	
General manager	-	
Appraisal district	-	
Tax collector	-	
Security	31,117	
Other contracted services	<u>105,416</u>	149,117
Utilities		-
Repairs and Maintenance		117,268
Administrative Expenditures		
Directors' fees	7,350	
Office supplies	7,936	
Insurance	850	
Other administrative expenditures	<u>24,241</u>	40,377
Capital Outlay		
Capitalized assets	-	
Expenditures not capitalized	<u>359,356</u>	359,356
Tap Connection Expenditures		31,309
Solid Waste Disposal		379,001
Fire Fighting		-
Parks and Recreation		-
Other Expenditures		<u>-</u>
Total expenditures		<u><u>\$ 3,544,072</u></u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Temporary Investments
May 31, 2020

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
TexPool	0.23%	Demand	\$ 6,186,269	\$ 0
Debt Service Fund				
TexPool	0.23%	Demand	1,866,156	-
TexPool	0.23%	Demand	988,888	-
TexPool	0.23%	Demand	1,956,265	-
			4,811,309	0
Totals			\$ 10,997,578	\$ 0

Cinco Southwest Municipal Utility District No. 2
Analysis of Taxes Levied and Receivable
Year Ended May 31, 2020

	Maintenance Taxes	Contract Taxes	Debt Service Taxes	Road Debt Service Taxes
Receivable, Beginning of Year	\$ 14,939	\$ 44,390	\$ 20,777	\$ 4,062
Additions and corrections to prior years' taxes	(1,372)	(3,829)	(1,853)	(342)
Adjusted receivable, beginning of year	<u>13,567</u>	<u>40,561</u>	<u>18,924</u>	<u>3,720</u>
2019 Original Tax Levy	1,574,006	3,698,915	1,770,757	275,451
Additions and corrections	1,149	2,700	1,293	201
Adjusted tax levy	<u>1,575,155</u>	<u>3,701,615</u>	<u>1,772,050</u>	<u>275,652</u>
Total to be accounted for	1,588,722	3,742,176	1,790,974	279,372
Tax collections: Current year	(1,549,459)	(3,641,230)	(1,743,143)	(271,155)
Prior years	(8,529)	(24,539)	(11,666)	(2,220)
Receivable, end of year	<u>\$ 30,734</u>	<u>\$ 76,407</u>	<u>\$ 36,165</u>	<u>\$ 5,997</u>
Receivable, End of Year				
2019	\$ 25,696	\$ 60,385	\$ 28,907	\$ 4,497
2018	2,393	6,616	3,209	591
2017	696	2,176	1,023	196
2016	842	2,756	1,174	255
2015	658	2,679	1,113	273
2014	449	1,795	739	185
Receivable, end of year	<u>\$ 30,734</u>	<u>\$ 76,407</u>	<u>\$ 36,165</u>	<u>\$ 5,997</u>

Cinco Southwest Municipal Utility District No. 2
Analysis of Taxes Levied and Receivable (Continued)
Year Ended May 31, 2020

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Property Valuations				
Land	\$ 190,108,515	\$ 187,139,505	\$ 167,906,865	\$ 162,620,845
Improvements	595,985,827	588,625,506	599,432,073	610,393,293
Personal property	31,029,525	31,262,790	21,919,400	20,747,570
Exemptions	<u>(29,546,249)</u>	<u>(27,506,825)</u>	<u>(20,279,466)</u>	<u>(16,925,925)</u>
Total property valuations	<u>\$ 787,577,618</u>	<u>\$ 779,520,976</u>	<u>\$ 768,978,872</u>	<u>\$ 776,835,783</u>
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.2250	\$ 0.2280	\$ 0.2350	\$ 0.2300
Contract tax rates	0.4700	0.4700	0.5000	0.5400
Road debt service tax rates	0.0350	0.0420	0.0450	0.0500
Maintenance tax rates*	<u>0.2000</u>	<u>0.1700</u>	<u>0.1600</u>	<u>0.1650</u>
Total tax rates per \$100 valuation	<u>\$ 0.9300</u>	<u>\$ 0.9100</u>	<u>\$ 0.9400</u>	<u>\$ 0.9850</u>
Tax Levy	<u>\$ 7,324,472</u>	<u>\$ 7,093,641</u>	<u>\$ 7,228,401</u>	<u>\$ 7,651,832</u>
Percent of Taxes Collected to Taxes Levied**	<u>98%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

*Maximum tax rate approved by voters: \$1.50 on November 8, 2005

**Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2009		Total
	Principal Due September 1	Interest Due September 1, March 1	
2021	<u>\$ 360,000</u>	<u>\$ 10,800</u>	<u>\$ 370,800</u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Road Series 2009		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	<u>\$ 185,000</u>	<u>\$ 4,440</u>	<u>\$ 189,440</u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2011		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 185,000	\$ 17,298	\$ 202,298
2022	185,000	10,638	195,638
2023	<u>185,000</u>	<u>3,607</u>	<u>188,607</u>
Totals	<u>\$ 555,000</u>	<u>\$ 31,543</u>	<u>\$ 586,543</u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2012		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 290,000	\$ 22,950	\$ 312,950
2022	305,000	14,025	319,025
2023	315,000	4,725	319,725
Totals	\$ 910,000	\$ 41,700	\$ 951,700

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2012A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 65,000	\$ 8,775	\$ 73,775
2022	65,000	6,825	71,825
2023	65,000	4,875	69,875
2024	65,000	2,925	67,925
2025	65,000	975	65,975
Totals	\$ 325,000	\$ 24,375	\$ 349,375

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2012B		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 40,000	\$ 24,000	\$ 64,000
2022	40,000	22,800	62,800
2023	40,000	21,600	61,600
2024	40,000	20,400	60,400
2025	40,000	19,200	59,200
2026	40,000	17,975	57,975
2027	40,000	16,725	56,725
2028	40,000	15,475	55,475
2029	40,000	14,225	54,225
2030	40,000	12,950	52,950
2031	40,000	11,650	51,650
2032	40,000	10,350	50,350
2033	40,000	9,050	49,050
2034	40,000	7,700	47,700
2035	40,000	6,300	46,300
2036	40,000	4,900	44,900
2037	40,000	3,500	43,500
2038	40,000	2,100	42,100
2039	40,000	700	40,700
Totals	\$ 760,000	\$ 241,600	\$ 1,001,600

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2015		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 135,000	\$ 311,388	\$ 446,388
2022	335,000	304,337	639,337
2023	530,000	294,013	824,013
2024	545,000	282,581	827,581
2025	560,000	268,050	828,050
2026	575,000	251,025	826,025
2027	590,000	230,600	820,600
2028	610,000	206,600	816,600
2029	630,000	181,800	811,800
2030	650,000	156,200	806,200
2031	670,000	129,800	799,800
2032	695,000	102,500	797,500
2033	715,000	74,300	789,300
2034	740,000	45,200	785,200
2035	760,000	15,200	775,200
Totals	\$ 8,740,000	\$ 2,853,594	\$ 11,593,594

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	<u>Road Refunding Series 2016</u>		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 25,000	\$ 149,225	\$ 174,225
2022	215,000	145,625	360,625
2023	225,000	139,025	364,025
2024	235,000	132,125	367,125
2025	245,000	124,925	369,925
2026	255,000	117,425	372,425
2027	265,000	108,300	373,300
2028	275,000	97,500	372,500
2029	285,000	86,300	371,300
2030	300,000	74,600	374,600
2031	315,000	62,300	377,300
2032	325,000	49,500	374,500
2033	345,000	36,100	381,100
2034	355,000	22,100	377,100
2035	375,000	7,500	382,500
Totals	<u>\$ 4,040,000</u>	<u>\$ 1,352,550</u>	<u>\$ 5,392,550</u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2019		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 20,000	\$ 64,550	\$ 84,550
2022	20,000	63,950	83,950
2023	20,000	63,350	83,350
2024	205,000	59,975	264,975
2025	205,000	53,825	258,825
2026	205,000	47,675	252,675
2027	200,000	41,600	241,600
2028	195,000	36,650	231,650
2029	190,000	32,562	222,562
2030	185,000	28,113	213,113
2031	180,000	23,100	203,100
2032	175,000	17,775	192,775
2033	170,000	12,600	182,600
2034	170,000	7,500	177,500
2035	165,000	2,475	167,475
Totals	\$ 2,305,000	\$ 555,700	\$ 2,860,700

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2019A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 45,000	\$ 70,200	\$ 115,200
2022	205,000	139,050	344,050
2023	15,000	132,900	147,900
2024	340,000	132,450	472,450
2025	350,000	122,250	472,250
2026	425,000	111,750	536,750
2027	435,000	99,000	534,000
2028	440,000	90,300	530,300
2029	445,000	81,500	526,500
2030	450,000	72,600	522,600
2031	455,000	63,600	518,600
2032	470,000	49,950	519,950
2033	475,000	35,850	510,850
2034	485,000	21,600	506,600
2035	50,000	7,050	57,050
2036	50,000	5,550	55,550
2037	45,000	4,050	49,050
2038	45,000	2,700	47,700
2039	45,000	1,350	46,350
Totals	<u>\$ 5,270,000</u>	<u>\$ 1,243,700</u>	<u>\$ 6,513,700</u>

Cinco Southwest Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	\$ 1,350,000	\$ 683,626	\$ 2,033,626
2022	1,370,000	707,250	2,077,250
2023	1,395,000	664,095	2,059,095
2024	1,430,000	630,456	2,060,456
2025	1,465,000	589,225	2,054,225
2026	1,500,000	545,850	2,045,850
2027	1,530,000	496,225	2,026,225
2028	1,560,000	446,525	2,006,525
2029	1,590,000	396,387	1,986,387
2030	1,625,000	344,463	1,969,463
2031	1,660,000	290,450	1,950,450
2032	1,705,000	230,075	1,935,075
2033	1,745,000	167,900	1,912,900
2034	1,790,000	104,100	1,894,100
2035	1,390,000	38,525	1,428,525
2036	90,000	10,450	100,450
2037	85,000	7,550	92,550
2038	85,000	4,800	89,800
2039	85,000	2,050	87,050
Totals	<u>\$ 23,450,000</u>	<u>\$ 6,360,002</u>	<u>\$ 29,810,002</u>

Cinco Southwest Municipal Utility District No. 2
Changes in Long-term Bonded Debt
Year Ended May 31, 2020

	Bond			
	Series 2009	Road Series 2009	Series 2011	Refunding Series 2012
Interest rates	6.00%	4.80%	3.50% to 3.90%	3.00%
Dates interest payable	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1
Maturity dates	September 1, 2020	September 1, 2020	September 1, 2020/2022	September 1, 2020/2022
Bonds outstanding, beginning of current year	\$ 885,000	\$ 355,000	\$ 2,930,000	\$ 5,310,000
Bonds sold during current year	-	-	-	-
Bonds refunded during current year	185,000	-	2,190,000	4,115,000
Retirements, principal	340,000	170,000	185,000	285,000
Bonds outstanding, end of current year	\$ 360,000	\$ 185,000	\$ 555,000	\$ 910,000
Interest paid during current year	\$ 37,628	\$ 12,875	\$ 24,235	\$ 100,275

Paying agent's name and address:

Series 2009	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2009	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2011	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012B	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2015	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2016	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2019	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2019A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 270,000,000	\$ 50,000,000	\$ 270,000,000
Amount issued	\$ 19,395,000	\$ 10,845,000	\$ 2,435,000
Remaining to be issued	\$ 250,605,000	\$ 39,155,000	\$ 267,565,000
Debt service fund cash and temporary investment balances as of May 31, 2020:			\$ 4,955,492
Average annual debt service payment (principal and interest) for remaining term of all debt:			\$ 1,568,947

Issues

Series 2012A	Series 2012B	Refunding Series 2015	Road Refunding Series 2016	Refunding Series 2019	Refunding Series 2019A	Totals
3.00%	3.00% to 5.50%	3.00% to 4.00%	3.00% to 4.00%	2.00% to 3.00%	2.00% to 3.00%	
September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	
September 1, 2020/2024	September 1, 2020/2038	September 1, 2020/2034	September 1, 2020/2034	September 1, 2020/2034	September 1, 2020/2038	
\$ 1,300,000	\$ 800,000	\$ 8,870,000	\$ 4,060,000	\$ -	\$ -	\$ 24,510,000
-	-	-	-	2,305,000	5,270,000	7,575,000
910,000	-	-	-	-	-	7,400,000
65,000	40,000	130,000	20,000	-	-	1,235,000
<u>\$ 325,000</u>	<u>\$ 760,000</u>	<u>\$ 8,740,000</u>	<u>\$ 4,040,000</u>	<u>\$ 2,305,000</u>	<u>\$ 5,270,000</u>	<u>\$ 23,450,000</u>
<u>\$ 26,488</u>	<u>\$ 25,700</u>	<u>\$ 315,363</u>	<u>\$ 149,900</u>	<u>\$ 48,638</u>	<u>\$ 46,800</u>	<u>\$ 787,902</u>

Cinco Southwest Municipal Utility District No. 2
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended May 31,

	Amounts				
	2020	2019	2018	2017	2016
General Fund					
Revenues					
Property taxes	\$ 1,557,988	\$ 1,322,336	\$ 1,232,855	\$ 1,276,739	\$ 1,073,704
Water service	969,214	943,530	943,068	951,708	945,109
Sewer service	232,994	223,113	261,336	264,238	251,326
Regional water authority	1,329,843	1,169,568	1,098,889	999,190	903,445
Penalty and interest	21,881	15,831	18,174	25,625	27,227
Tap connection and inspection fees	85,686	11,472	43,535	34,275	149,800
Investment income	89,332	109,795	60,683	20,459	7,627
Other income	44,008	37,692	36,122	1,952	580
Total revenues	<u>4,330,946</u>	<u>3,833,337</u>	<u>3,694,662</u>	<u>3,574,186</u>	<u>3,358,818</u>
Expenditures					
Service operations:					
Purchased services	994,422	993,564	1,004,058	994,620	972,675
Regional water authority	1,338,891	1,190,422	1,115,916	1,011,040	915,257
Professional fees	134,331	106,392	131,314	94,477	81,285
Contracted services	149,117	143,022	143,535	118,812	102,586
Solid waste	379,001	362,018	353,696	346,776	354,974
Repairs and maintenance	117,268	87,599	93,837	151,552	125,440
Other expenditures	40,377	40,455	44,745	56,998	54,311
Tap connections	31,309	12,460	13,470	12,210	78,355
Capital outlay	<u>359,356</u>	<u>1,043,641</u>	<u>33,779</u>	<u>67,516</u>	<u>-</u>
Total expenditures	<u>3,544,072</u>	<u>3,979,573</u>	<u>2,934,350</u>	<u>2,854,001</u>	<u>2,684,883</u>
Excess (Deficiency) of Revenues Over Expenditures	786,874	(146,236)	760,312	720,185	673,935
Other Financing Uses					
Repayment of developer advances	<u>-</u>	<u>-</u>	<u>(490,000)</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	786,874	(146,236)	270,312	720,185	673,935
Fund Balance, Beginning of Year	<u>5,149,263</u>	<u>5,295,499</u>	<u>5,025,187</u>	<u>4,305,002</u>	<u>3,631,067</u>
Fund Balance, End of Year	<u>\$ 5,936,137</u>	<u>\$ 5,149,263</u>	<u>\$ 5,295,499</u>	<u>\$ 5,025,187</u>	<u>\$ 4,305,002</u>
Total Active Retail Water Connections	<u>1,929</u>	<u>1,922</u>	<u>1,922</u>	<u>1,912</u>	<u>1,907</u>
Total Active Retail Wastewater Connections	<u>1,832</u>	<u>1,826</u>	<u>1,827</u>	<u>1,820</u>	<u>1,819</u>

Percent of Fund Total Revenues

2020	2019	2018	2017	2016
36.0 %	34.5 %	33.4 %	35.7 %	32.0 %
22.4	24.6	25.5	26.6	28.1
5.4	5.8	7.1	7.4	7.5
30.7	30.5	29.7	28.0	26.9
0.5	0.4	0.5	0.7	0.8
2.0	0.3	1.2	0.9	4.5
2.0	2.9	1.6	0.6	0.2
1.0	1.0	1.0	0.1	0.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
23.0	25.9	27.2	27.8	28.9
30.9	31.1	30.2	28.3	27.3
3.1	2.8	3.5	2.6	2.4
3.4	3.7	3.9	3.3	3.1
8.8	9.4	9.6	9.7	10.6
2.7	2.3	2.5	4.2	3.7
0.9	1.1	1.2	1.6	1.6
0.7	0.3	0.4	0.3	2.3
8.3	27.2	0.9	1.9	-
<u>81.8</u>	<u>103.8</u>	<u>79.4</u>	<u>79.7</u>	<u>79.9</u>
<u>18.2 %</u>	<u>(3.8) %</u>	<u>20.6 %</u>	<u>20.3 %</u>	<u>20.1 %</u>

Cinco Southwest Municipal Utility District No. 2
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended May 31,

	Amounts				
	2020	2019	2018	2017	2016
Debt Service Fund					
Revenues					
Property taxes	\$ 5,693,953	\$ 5,760,352	\$ 6,010,271	\$ 6,357,723	\$ 6,625,724
Penalty and interest	32,785	47,042	50,433	58,589	58,661
Investment income	53,668	74,122	41,261	15,701	7,507
Total revenues	<u>5,780,406</u>	<u>5,881,516</u>	<u>6,101,965</u>	<u>6,432,013</u>	<u>6,691,892</u>
Expenditures					
Current:					
Contracted services	27,985	28,188	27,598	27,717	27,408
Other expenditures	69,878	79,304	76,742	73,751	74,787
Debt service:					
Principal retirement	1,235,000	1,195,000	1,160,000	1,135,000	1,115,000
Interest and fees	787,691	943,352	991,096	1,026,218	1,113,845
Debt issuance costs	318,630	-	-	-	164,647
Debt defeasance	35,000	-	-	-	365,079
Contractual obligation	3,712,015	3,802,308	4,039,779	4,249,296	4,424,122
Total expenditures	<u>6,186,199</u>	<u>6,048,152</u>	<u>6,295,215</u>	<u>6,511,982</u>	<u>7,284,888</u>
Deficiency of Revenues Over Expenditures	<u>(405,793)</u>	<u>(166,636)</u>	<u>(193,250)</u>	<u>(79,969)</u>	<u>(592,996)</u>
Other Financing Sources (Uses)					
Interfund transfers in	-	-	-	-	365,089
General obligation bonds issued	7,575,000	-	-	-	4,135,000
Premium on debt issued	199,470	-	-	-	310,459
Deposit with escrow agent	(7,446,071)	-	-	-	(4,277,536)
Total other financing sources	<u>328,399</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>533,012</u>
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(77,394)</u>	<u>(166,636)</u>	<u>(193,250)</u>	<u>(79,969)</u>	<u>(59,984)</u>
Fund Balance, Beginning of Year	<u>5,009,084</u>	<u>5,175,720</u>	<u>5,368,970</u>	<u>5,448,939</u>	<u>5,508,923</u>
Fund Balance, End of Year	<u>\$ 4,931,690</u>	<u>\$ 5,009,084</u>	<u>\$ 5,175,720</u>	<u>\$ 5,368,970</u>	<u>\$ 5,448,939</u>

Percent of Fund Total Revenues

2020	2019	2018	2017	2016
98.5 %	97.9 %	98.5 %	98.9 %	99.0 %
0.6	0.8	0.8	0.9	0.9
0.9	1.3	0.7	0.2	0.1
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.5	0.5	0.5	0.4	0.4
1.2	1.4	1.3	1.1	1.1
21.4	20.3	19.0	17.6	16.7
13.6	16.0	16.2	16.0	16.6
5.5	-	-	-	2.5
0.6	-	-	-	5.5
<u>64.2</u>	<u>64.6</u>	<u>66.2</u>	<u>66.1</u>	<u>66.1</u>
<u>107.0</u>	<u>102.8</u>	<u>103.2</u>	<u>101.2</u>	<u>108.9</u>
<u>(7.0) %</u>	<u>(2.8) %</u>	<u>(3.2) %</u>	<u>(1.2) %</u>	<u>(8.9) %</u>

Cinco Southwest Municipal Utility District No. 2
Board Members, Key Personnel and Consultants
Year Ended May 31, 2020

Complete District mailing address:	Cinco Southwest Municipal Utility District No. 2 Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	<u>May 4, 2020</u>
Limit on fees of office that a director may receive during a fiscal year:	<u>\$ 7,200</u>

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Alan Hirshman	Elected 05/18- 05/22	\$ 1,500	\$ 30	President
Gary Kob	Elected 05/18- 05/22	1,500	108	Vice President
Cregg McGaha	Elected 05/18- 05/22	1,650	130	Secretary
Whitney Smith	Elected 05/20- 05/24	1,500	116	Assistant Vice President
Lisa Flores	Elected 05/20- 05/24	1,050	0	Assistant Secretary
Robert Anderson	Appointed 02/18- 07/19	150	0	Resigned

*Fees are the amounts actually paid to a director during the District's fiscal year.

Cinco Southwest Municipal Utility District No. 2
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2020

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	07/08/05	\$ 102,890 93,788	General Counsel Bond Counsel
BGE, Inc.	09/27/12	13,139	Engineer
BKD, LLP	04/27/06	22,200	Auditor
District Data Services, Inc.	07/08/05	14,584	Bookkeeper
Fort Bend Central Appraisal District	Legislative Action	51,826	Appraiser
Inframark, LLC	07/08/05	616,709	Operator
Masterson Advisors LLC	04/24/18	81,119	Financial Advisor
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/23/06	7,855	Delinquent Tax Attorney
Utility Tax Service, LLC	07/08/05	39,075	Tax Assessor/ Collector
Investment Officer			
Wendy Austin	10/26/06	N/A	Bookkeeper

Cinco Southwest Municipal Utility District No. 3

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2020



Cinco Southwest Municipal Utility District No. 3
May 31, 2020

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Independent Auditor's Report

Board of Directors
Cinco Southwest Municipal Utility District No. 3
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Cinco Southwest Municipal Utility District No. 3 (the District), as of and for the year ended May 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 May 31, 2020, and the respective changes in financial position thereof 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 budgetary comparison schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
October 5, 2020

Cinco Southwest Municipal Utility District No. 3

Management's Discussion and Analysis

May 31, 2020

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Cinco Southwest Municipal Utility District No. 3

Management's Discussion and Analysis (Continued)

May 31, 2020

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Cinco Southwest Municipal Utility District No. 3
Management's Discussion and Analysis (Continued)
May 31, 2020

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	2020	2019
Current and other assets	\$ 11,901,721	\$ 11,262,871
Capital assets	13,550,773	13,979,563
Total assets	25,452,494	25,242,434
Deferred outflows of resources	420,316	0
Total assets and deferred outflows of resources	\$ 25,872,810	\$ 25,242,434
Long-term liabilities	\$ 19,472,364	\$ 19,496,051
Other liabilities	448,269	463,846
Total liabilities	19,920,633	19,959,897
Net position:		
Net investment in capital assets	(5,425,778)	(5,423,853)
Restricted	3,573,840	3,817,422
Unrestricted	7,804,115	6,888,968
Total net position	\$ 5,952,177	\$ 5,282,537

The total net position of the District increased by \$669,640, or about 13 percent. The majority of the increase in net position is related to property taxes and service revenues exceeding services, contractual obligations and debt service expenses. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Position

	2020	2019
Revenues:		
Property taxes	\$ 6,061,255	\$ 6,247,705
Charges for services	2,188,549	2,057,590
Other revenues	195,103	234,894
Total revenues	8,444,907	8,540,189

Cinco Southwest Municipal Utility District No. 3
Management's Discussion and Analysis (Continued)
May 31, 2020

Summary of Changes in Net Position (Continued)

	2020	2019
Expenses:		
Services	\$ 3,008,039	\$ 3,374,434
Depreciation	450,042	450,042
Debt service	1,132,168	865,436
Contractual obligation	3,185,018	3,269,831
Total expenses	7,775,267	7,959,743
Change in net position	669,640	580,446
Net position, beginning of year	5,282,537	4,702,091
Net position, end of year	\$ 5,952,177	\$ 5,282,537

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended May 31, 2020, were \$11,557,917, an increase of \$582,734 from the prior year.

The general fund's fund balance increased by \$907,203 due to property taxes and service revenues exceeding service operations expenditures.

The debt service fund's fund balance decreased by \$308,677 due to bond principal and interest requirements, contractual obligation and debt defeasance being greater than tax revenues.

The capital project fund's fund balance decreased by \$15,792 due to capital outlay expenditures exceeding investment income.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to property taxes revenues and professional fee expenditures being greater than anticipated and repairs and maintenance and other expenditures being less than anticipated. The fund balance as of May 31, 2020, was expected to be \$7,187,469 and the actual end-of-year fund balance was \$7,791,117.

Cinco Southwest Municipal Utility District No. 3
Management's Discussion and Analysis (Continued)
May 31, 2020

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below:

Capital Assets (Net of Accumulated Depreciation)

	2020	2019
Land and improvements	\$ 639,968	\$ 639,968
Construction in progress	21,252	-
Water facilities	2,703,540	2,779,018
Wastewater facilities	4,228,538	4,346,367
Drainage facilities	4,694,544	4,825,862
Roads	1,262,931	1,388,348
Total capital assets	\$ 13,550,773	\$ 13,979,563

During the current year, additions to capital assets were as follows:

Construction in progress related to the waterline relocation at FM 1463	\$ 21,252
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Debt

The changes in the debt position of the District during the fiscal year ended May 31, 2020, are summarized as follows:

Long-term debt payable, beginning of year	\$ 19,496,051
Increases in long-term debt	12,527,080
Decreases in long-term debt	(12,550,767)
Long-term debt payable, end of year	\$ 19,472,364

At May 31, 2020, the District had \$87,385,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving water, sanitary sewer and drainage systems within the District and for refunding such bonds; \$21,035,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing, and improving recreational facilities; and \$16,090,000 authorized, but unissued, unlimited tax bonds for the purpose of purchasing, constructing and maintaining roads and for refunding such bonds.

During the current year, the District issued \$9,225,000 in Unlimited Tax Refunding Bonds, Series 2019 to refund \$3,920,000 of outstanding Series 2011 bonds and \$5,210,000 of outstanding Series 2012 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$1,161,838 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$853,108.

Cinco Southwest Municipal Utility District No. 3
Management's Discussion and Analysis (Continued)
May 31, 2020

During the current year, the District also issued \$2,955,000 in Unlimited Tax Road Refunding Bonds, Series 2019 to refund \$2,260,000 of outstanding Series 2011 road bonds and \$630,000 of outstanding Series 2012 road bonds. The District refunded the bonds to reduce total debt service payments over future years by \$422,422 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$309,945.

The District's bonds carry an underlying rating of "A2" from Moody's Investors Service, Inc. (Moody's). The Series 2013 and 2013A bonds carry a "AA" rating from Standard & Poor's (S&P) by virtue of bond insurance issued by Build America Mutual Assurance Company. The Series 2019 refunding and 2019 road refunding bonds carry a "AA" rating from S&P and "A2" rating from Moody's by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City for full purposes without the District's consent, except as set forth below.

Effective December 14, 2009, the District entered into a Strategic Partnership Agreement (the Agreement) with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years, at which time the City has the option to annex the District if it chooses to do so.

Subsequent Events

In June 2020, the District issued \$3,285,000 in Unlimited Tax Refunding Bonds, Series 2020 to refund \$1,170,000 of outstanding Series 2012A bonds and \$2,015,000 of outstanding Series 2013 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$328,480 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$246,406.

In June 2020, the District also issued \$2,775,000 in Unlimited Tax Park Refunding Bonds, Series 2020, to refund \$1,370,000 of outstanding Series 2012B bonds and \$1,405,000 of outstanding Series 2013A bonds. The District refunded the bonds to reduce total debt service payments over future years by \$272,781 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$180,567.

Cinco Southwest Municipal Utility District No. 3
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 189,607	\$ 116,837	\$ -	\$ 306,444	\$ -	\$ 306,444
Certificates of deposit	240,660	-	-	240,660	-	240,660
Short-term investments	7,471,721	3,590,414	76,843	11,138,978	-	11,138,978
Receivables:						
Property taxes	12,998	41,089	-	54,087	-	54,087
Service accounts	143,061	-	-	143,061	-	143,061
Accrued penalty and interest	-	-	-	-	8,016	8,016
Accrued interest	3,947	-	-	3,947	-	3,947
Interfund receivable	17,291	-	-	17,291	(17,291)	-
Due from others	6,528	-	-	6,528	-	6,528
Capital assets (net of accumulated depreciation):						
Land and improvements	-	-	-	-	639,968	639,968
Construction in progress	-	-	-	-	21,252	21,252
Infrastructure	-	-	-	-	11,626,622	11,626,622
Roads	-	-	-	-	1,262,931	1,262,931
Total assets	8,085,813	3,748,340	76,843	11,910,996	13,541,498	25,452,494
Deferred Outflows of Resources						
Deferred amount on debt refundings	-	-	-	-	420,316	420,316
Total assets and deferred outflows of resources	\$ 8,085,813	\$ 3,748,340	\$ 76,843	\$ 11,910,996	\$ 13,961,814	\$ 25,872,810

Cinco Southwest Municipal Utility District No. 3
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
May 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Liabilities						
Accounts payable	\$ 246,173	\$ 3	\$ -	\$ 246,176	\$ -	\$ 246,176
Accrued interest payable	-	-	-	-	166,568	166,568
Customer deposits	35,525	-	-	35,525	-	35,525
Interfund payable	-	17,291	-	17,291	(17,291)	-
Long-term liabilities:						
Due within one year	-	-	-	-	965,000	965,000
Due after one year	-	-	-	-	18,507,364	18,507,364
Total liabilities	281,698	17,294	0	298,992	19,621,641	19,920,633
Deferred Inflows of Resources						
Deferred property tax revenues	12,998	41,089	0	54,087	(54,087)	0
Fund Balances/Net Position						
Fund balances:						
Restricted:						
Unlimited tax bonds	-	3,326,575	-	3,326,575	(3,326,575)	-
Road bonds	-	363,382	-	363,382	(363,382)	-
Parks	-	-	76,843	76,843	(76,843)	-
Unassigned	7,791,117	-	-	7,791,117	(7,791,117)	-
Total fund balances	7,791,117	3,689,957	76,843	11,557,917	(11,557,917)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 8,085,813	\$ 3,748,340	\$ 76,843	\$ 11,910,996		
Net position:						
Net investment in capital assets					(5,425,778)	(5,425,778)
Restricted for debt service					3,572,494	3,572,494
Restricted for capital projects					1,346	1,346
Unrestricted					7,804,115	7,804,115
Total net position					\$ 5,952,177	\$ 5,952,177

Cinco Southwest Municipal Utility District No. 3
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended May 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 1,523,626	\$ 4,512,868	\$ -	\$ 6,036,494	\$ 24,761	\$ 6,061,255
Water service	523,400	-	-	523,400	-	523,400
Sewer service	445,365	-	-	445,365	-	445,365
Regional water fee	1,219,784	-	-	1,219,784	-	1,219,784
Penalty and interest	14,089	19,307	-	33,396	8,016	41,412
Investment income	110,694	41,448	1,346	153,488	-	153,488
Other income	16	187	-	203	-	203
Total revenues	3,836,974	4,573,810	1,346	8,412,130	32,777	8,444,907
Expenditures/Expenses						
Service operations:						
Purchased services	927,830	-	-	927,830	-	927,830
Regional water fee	1,199,358	-	-	1,199,358	-	1,199,358
Professional fees	133,980	-	-	133,980	-	133,980
Contracted services	454,563	72,850	-	527,413	-	527,413
Repairs and maintenance	112,248	-	-	112,248	-	112,248
Other expenditures	80,540	9,532	-	90,072	17,138	107,210
Capital outlay	21,252	-	17,138	38,390	(38,390)	-
Depreciation	-	-	-	-	450,042	450,042
Debt service:						
Principal retirement	-	905,000	-	905,000	(905,000)	-
Interest and fees	-	585,623	-	585,623	119,434	705,057
Debt issuance costs	-	427,111	-	427,111	-	427,111
Debt defeasance	-	152,000	-	152,000	(152,000)	-
Contractual obligation	-	3,185,018	-	3,185,018	-	3,185,018
Total expenditures/expenses	2,929,771	5,337,134	17,138	8,284,043	(508,776)	7,775,267
Excess (Deficiency) of Revenues Over Expenditures	907,203	(763,324)	(15,792)	128,087	541,553	

Cinco Southwest Municipal Utility District No. 3
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances (Continued)
Year Ended May 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Other Financing Sources (Uses)						
General obligation bonds issued	\$ -	\$ 12,180,000	\$ -	\$ 12,180,000	\$ (12,180,000)	
Payments to escrow agent	-	(12,072,433)	-	(12,072,433)	12,072,433	
Premium on debt issued	-	347,080	-	347,080	(347,080)	
Total other financing sources	<u>0</u>	<u>454,647</u>	<u>0</u>	<u>454,647</u>	<u>(454,647)</u>	
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	907,203	(308,677)	(15,792)	582,734	(582,734)	
Change in Net Position					669,640	\$ 669,640
Fund Balances/Net Position						
Beginning of year	<u>6,883,914</u>	<u>3,998,634</u>	<u>92,635</u>	<u>10,975,183</u>	<u>-</u>	<u>5,282,537</u>
End of year	<u>\$ 7,791,117</u>	<u>\$ 3,689,957</u>	<u>\$ 76,843</u>	<u>\$ 11,557,917</u>	<u>\$ 0</u>	<u>\$ 5,952,177</u>

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Cinco Southwest Municipal Utility District No. 3 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission) dated February 9, 2007. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater, drainage, recreational facilities and road facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2020

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Capital Projects Fund – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended May 31, 2020, include collections during the current period or within 60 days of year-end related to the 2019 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended May 31, 2020, the 2019 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45
Roads	10-45

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 13,550,773
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	54,087
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	8,016
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	420,316
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(166,568)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(19,472,364)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ (5,605,740)</u>

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because of the following items.

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

Change in fund balances.	\$	582,734
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense and noncapitalized costs exceeded capital outlay expenditures in the current year.		(428,790)
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		(347,080)
Governmental funds report proceeds from the sale of bonds because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position.		949,433
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.		32,777
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<u>(119,434)</u>
Change in net position of governmental activities.	<u>\$</u>	<u>669,640</u>

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At May 31, 2020, none of the District's bank balances were exposed to custodial credit risk.

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2020

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At May 31, 2020, the District had investments and maturities as follows:

Type	Maturities in Years				
	Amortized Cost	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 11,138,978	\$ 11,138,978	\$ 0	\$ 0	\$ 0

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2020, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at May 31, 2020, as follows.

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

Carrying value:		
Deposits		\$ 547,104
Investments		<u>11,138,978</u>
Total		<u><u>\$ 11,686,082</u></u>

Investment Income

Investment income of \$153,488 for the year ended May 31, 2020, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended May 31, 2020, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 639,968	\$ -	\$ 639,968
Construction in progress	-	21,252	<u>21,252</u>
Total capital assets, non-depreciable	<u>639,968</u>	<u>21,252</u>	<u>661,220</u>
Capital assets, depreciable:			
Water production and distribution facilities	3,387,722	-	3,387,722
Wastewater collection and treatment facilities	5,287,646	-	5,287,646
Drainage facilities	5,893,210	-	5,893,210
Roads	2,417,071	-	<u>2,417,071</u>
Total capital assets, depreciable	<u>16,985,649</u>	<u>0</u>	<u>16,985,649</u>
Less accumulated depreciation:			
Water production and distribution facilities	(608,704)	(75,478)	(684,182)
Wastewater collection and treatment facilities	(941,279)	(117,829)	(1,059,108)
Drainage facilities	(1,067,348)	(131,318)	(1,198,666)
Roads	<u>(1,028,723)</u>	<u>(125,417)</u>	<u>(1,154,140)</u>
Total accumulated depreciation	<u>(3,646,054)</u>	<u>(450,042)</u>	<u>(4,096,096)</u>
Total governmental activities, net	<u><u>\$ 13,979,563</u></u>	<u><u>\$ (428,790)</u></u>	<u><u>\$ 13,550,773</u></u>

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended May 31, 2020, were as follows:

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
General obligation bonds	\$ 20,110,000	\$ 12,180,000	\$ 12,925,000	\$ 19,365,000	\$ 965,000
Less discounts on bonds	613,949	-	389,858	224,091	-
Add premiums on bonds	-	347,080	15,625	331,455	-
Total governmental activities long-term liabilities	<u>\$ 19,496,051</u>	<u>\$ 12,527,080</u>	<u>\$ 12,550,767</u>	<u>\$ 19,472,364</u>	<u>\$ 965,000</u>

General Obligation Bonds

	Series 2011	Road Series 2011
Amounts outstanding, May 31, 2020	\$145,000	\$85,000
Interest rates	4.00%	3.75%
Maturity dates, serially beginning/ending	September 1, 2020	September 1, 2020
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2019	September 1, 2019
	Series 2012	Road Series 2012
Amounts outstanding, May 31, 2020	\$620,000	\$35,000
Interest rates	2.80% to 3.00%	2.75%
Maturity dates, serially beginning/ending	September 1, 2020/2021	September 1, 2020
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2019	September 1, 2019

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

	Series 2012A	Series 2012B
Amounts outstanding, May 31, 2020	\$1,235,000	\$1,450,000
Interest rates	1.40% to 3.85%	1.40% to 3.85%
Maturity dates, serially beginning/ending	September 1, 2020/2038	September 1, 2020/2038
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2019	September 1, 2019
	Series 2013	Series 2013A
Amounts outstanding, May 31, 2020	\$2,130,000	\$1,485,000
Interest rates	3.25% to 5.00%	3.50% to 5.00%
Maturity dates, serially beginning/ending	September 1, 2020/2038	September 1, 2020/2038
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2020	September 1, 2020
	Refunding Series 2019	Refunding Road Series 2019
Amounts outstanding, May 31, 2020	\$9,225,000	\$2,955,000
Interest rates	2.00% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2020/2038	September 1, 2020/2038
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2024	September 1, 2024

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at May 31, 2020.

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

Year	Principal	Interest	Total
2021	\$ 965,000	\$ 651,127	\$ 1,616,127
2022	980,000	621,298	1,601,298
2023	995,000	588,292	1,583,292
2024	1,015,000	551,094	1,566,094
2025	1,030,000	512,835	1,542,835
2026-2030	5,280,000	2,066,124	7,346,124
2031-2035	5,585,000	1,117,282	6,702,282
2036-2039	3,515,000	217,900	3,732,900
Total	<u>\$ 19,365,000</u>	<u>\$ 6,325,952</u>	<u>\$ 25,690,952</u>

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

Water, sewer, drainage and refunding bonds voted	\$ 105,000,000
Water, sewer, drainage and refunding bonds sold	17,615,000
Recreational and refunding bonds voted	25,000,000
Recreational and refunding bonds sold	3,965,000
Road and refunding bonds voted	20,000,000
Road and refunding bonds sold	3,910,000

Note 5: Significant Bond Resolution and Commission Requirements

- A. The Bond Resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended May 31, 2020, the District levied an ad valorem debt service tax at the rate of \$0.2100 per \$100 of assessed valuation, which resulted in a tax levy of \$1,368,718 on the taxable valuation of \$651,770,062 for the 2019 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$1,397,610 of which \$283,805 has been paid and \$1,113,805 is due September 1, 2020.
- B. At an election held November 6, 2007, voters authorized a road debt service tax sufficient to pay principal and interest on road bonds when due. During the year ended May 31, 2020, the District levied an ad valorem road debt service tax at the rate of \$0.0350 per \$100 of assessed valuation, which resulted in a tax levy of \$228,120 on the taxable valuation of \$651,770,062 for the 2019 tax year. The interest and principal requirements to be paid from the road debt service tax revenues and available resources are \$233,663 of which \$49,331 has been paid and \$184,332 is due September 1, 2020.

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

Note 6: Maintenance Taxes

At an election held November 6, 2007, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2020, the District levied an ad valorem maintenance tax at the rate of \$0.2350 per \$100 of assessed valuation, which resulted in a tax levy of \$1,531,659 on the taxable valuation of \$651,770,062 for the 2019 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

At an election held November 6, 2007, voters authorized a road maintenance tax not to exceed \$0.25 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2020, the District did not levy an ad valorem road maintenance tax for the 2019 tax year. The road maintenance tax, when levied, will be used by the general fund to pay expenditures for maintenance of certain roads within the District.

Note 7: Contract Taxes

At an election held November 6, 2007, voters authorized a contract tax on all property within the District subject to taxation. During the year ended May 31, 2020, the District levied an ad valorem contract tax at the rate of \$0.4500 per \$100 assessed valuation, which resulted in a tax levy of \$2,932,965 on the taxable valuation of \$651,770,062 for the 2019 tax year. This contract tax is used to pay for its pro rata share of principal and interest on the District's contract revenue bonds as described in Note 9.

Note 8: Regional Water Authority

The District is within the boundaries of the North Fort Bend Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Fort Bend Subsidence District, which regulates groundwater withdrawal. As of May 31, 2020, the Authority was billing Cinco Southwest Municipal Utility District No. 1 (District No. 1) \$3.95 per 1,000 gallons of water pumped from its wells and \$4.30 per 1,000 gallons of surface water received. District No. 1 charges the District monthly operational fees, which include the Authority's fee. This amount is subject to future increases.

Note 9: Financing and Operation of Regional Facilities

On November 16, 2007, the District entered into a regional contract with District No. 1. District No. 1 agreed to provide or cause to be provided the regional water supply and delivery facilities and the regional waste collection, treatment and disposal facilities necessary to serve the

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

District. Under the terms of the regional contract, which is in effect for 40 years, District No. 1 charges the District a monthly operational fee calculated by multiplying the unit cost per connection by the number of equivalent single-family residential connections reserved to each participant. For the year ended May 31, 2020, the District incurred \$927,830 for its share of operating costs under this agreement.

In addition, District No. 1 is authorized to issue contract revenue bonds sufficient to complete acquisition and construction of the facilities, as needed, to serve all districts in the service area. Each participating district contributes to the payment of debt service requirements of the bonds, based on the certified assessed valuation of each participant as a percentage of the total assessed valuation of all participating districts. During the current year, the District paid \$3,185,018 for its pro rata share (approximately 30 percent) of the principal and interest of District No. 1's bonds.

During prior years, the District purchased a total of 668 equivalent single-family connections for recreational facilities at \$5,000 per connection for a total of \$3,340,000.

The debt service requirements on District No. 1's bonds outstanding, as disclosed in its annual financial report as of May 31, 2020, are as follows:

Year	Principal	Interest	Total
2021	\$ 6,885,000	\$ 4,140,582	\$ 11,025,582
2022	6,955,000	3,902,323	10,857,323
2023	6,975,000	3,702,284	10,677,284
2024	7,005,000	3,491,793	10,496,793
2025	7,070,000	3,267,507	10,337,507
2026-2030	36,000,000	12,801,945	48,801,945
2031-2035	36,590,000	6,526,842	43,116,842
2036-2039	13,770,000	1,249,599	15,019,599
Total	<u>\$ 121,250,000</u>	<u>\$ 39,082,875</u>	<u>\$ 160,332,875</u>

Note 10: Strategic Partnership Agreement

The District has entered into a Strategic Partnership Agreement (the Agreement) with the City of Houston (the City). Pursuant to the terms of the Agreement, certain commercial tracts (currently undeveloped) within the District have been annexed into the City for limited purposes and the City has imposed a 1 percent sales and use tax (but no property tax) within the areas of limited-purpose annexation and agreed to remit one-half of such sales and use tax to the District to be used for any lawful District purpose. The District, along with the other districts in the Cinco Ranch Development, has agreed to utilize the Agreement revenue to pay joint operating and maintenance costs. District No. 1, by agreement with districts in its service area, will manage the expenditure of the Agreement revenues. Such revenues are not available to pay the principal of or interest on the bonds.

Cinco Southwest Municipal Utility District No. 3

Notes to Financial Statements

May 31, 2020

The Agreement further provides that the City may not annex the District for "full purposes" until 30 years from the effective date of the Agreement (December 14, 2009). Prior to the full purpose annexation of the District, property within the District is not subject to the City's ad valorem property tax and District residents are not allowed to vote in City elections for bond issues or charter amendments.

Note 11: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 12: Refunding Bonds

During the current year, the District issued \$9,225,000 in Unlimited Tax Refunding Bonds, Series 2019 to refund \$3,920,000 of outstanding Series 2011 bonds and \$5,210,000 of outstanding Series 2012 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$1,161,838 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$853,108.

During the current year, the District also issued \$2,955,000 in Unlimited Tax Road Refunding Bonds, Series 2019 to refund \$2,260,000 of outstanding Series 2011 road bonds and \$630,000 of outstanding Series 2012 road bonds. The District refunded the bonds to reduce total debt service payments over future years by \$422,422 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$309,945.

Note 13: Subsequent Events

In June 2020, the District issued \$3,285,000 in Unlimited Tax Refunding Bonds, Series 2020 to refund \$1,170,000 of outstanding Series 2012A bonds and \$2,015,000 of outstanding Series 2013 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$328,480 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$246,406

Cinco Southwest Municipal Utility District No. 3
Notes to Financial Statements
May 31, 2020

In June 2020, the District also issued \$2,775,000 in Unlimited Tax Park Refunding Bonds, Series 2020, to refund \$1,370,000 of outstanding Series 2012B bonds and \$1,405,000 of outstanding Series 2013A bonds. The District refunded the bonds to reduce total debt service payments over future years by \$272,781 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$180,567.

Note 14: Uncertainties

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position and results of operations of the District. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Required Supplementary Information

Cinco Southwest Municipal Utility District No. 3
Budgetary Comparison Schedule – General Fund
Year Ended May 31, 2020

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 1,048,100	\$ 1,523,626	\$ 475,526
Water service	520,000	523,400	3,400
Sewer service	420,000	445,365	25,365
Regional water fee	1,222,000	1,219,784	(2,216)
Penalty and interest	15,000	14,089	(911)
Investment income	90,000	110,694	20,694
Other income	-	16	16
	<u>3,315,100</u>	<u>3,836,974</u>	<u>521,874</u>
Expenditures			
Service operations:			
Purchased services	927,830	927,830	-
Regional water fee	1,222,000	1,199,358	22,642
Professional fees	95,100	133,980	(38,880)
Contracted services	442,200	454,563	(12,363)
Repairs and maintenance	183,600	112,248	71,352
Other expenditures	140,815	80,540	60,275
Capital outlay	-	21,252	(21,252)
	<u>3,011,545</u>	<u>2,929,771</u>	<u>81,774</u>
Excess of Revenues Over Expenditures	303,555	907,203	603,648
Fund Balance, Beginning of Year	<u>6,883,914</u>	<u>6,883,914</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 7,187,469</u></u>	<u><u>\$ 7,791,117</u></u>	<u><u>\$ 603,648</u></u>

Cinco Southwest Municipal Utility District No. 3
Notes to Required Supplementary Information
May 31, 2020

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2020.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Cinco Southwest Municipal Utility District No. 3
Other Schedules Included Within This Report
May 31, 2020

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 13-28
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Cinco Southwest Municipal Utility District No. 3

Schedule of Services and Rates

Year Ended May 31, 2020

1. Services provided by the District:

<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 checked="" type="checkbox"/> Security
<input checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input checked="" type="checkbox"/> Roads
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other		

2. Retail service providers

a. Retail rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
Water:	\$ 9.75	1,000	N	\$ 1.05	1,001 to 30,000
				\$ 2.50	30,001 to No Limit
Wastewater:	\$ 9.75	1,000	N	\$ 1.45	1,001 to No Limit
Regional water fee:	\$ 4.47	0	N	\$ 4.47	

Does the District employ winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage (including fees): Water \$ 63.90 Wastewater \$ 22.80

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC*
Unmetered	-	-	x1.0	-
≤ 3/4"	1,181	1,180	x1.0	1,180
1"	557	555	x2.5	1,388
1 1/2"	1	1	x5.0	5
2"	46	46	x8.0	368
3"	-	-	x15.0	-
4"	3	3	x25.0	75
6"	-	-	x50.0	-
8"	1	1	x80.0	80
10"	-	-	x115.0	-
Total water	1,789	1,786		3,096
Total wastewater	1,729	1,726	x1.0	1,726

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	289,217
Gallons billed to customers:	289,217
Water accountability ratio (gallons billed/gallons pumped):	100.00%

*"ESFC" means equivalent single-family connections

Cinco Southwest Municipal Utility District No. 3
Schedule of General Fund Expenditures
Year Ended May 31, 2020

Personnel (including benefits)		\$ -
Professional Fees		
Auditing	\$ 16,600	
Legal	96,351	
Engineering	21,029	
Financial advisor	-	133,980
Purchased Services for Resale		
Bulk water and wastewater service purchases		927,830
Regional Water Fee		1,199,358
Contracted Services		
Bookkeeping	11,115	
General manager	-	
Appraisal district	-	
Tax collector	-	
Security	31,117	
Other contracted services	63,123	105,355
Utilities		-
Repairs and Maintenance		112,248
Administrative Expenditures		
Directors' fees	8,700	
Office supplies	35,540	
Insurance	2,932	
Other administrative expenditures	33,368	80,540
Capital Outlay		
Capitalized assets	21,252	
Expenditures not capitalized	-	21,252
Tap Connection Expenditures		-
Solid Waste Disposal		349,208
Fire Fighting		-
Parks and Recreation		-
Other Expenditures		-
Total expenditures		\$ 2,929,771

Cinco Southwest Municipal Utility District No. 3
Schedule of Temporary Investments
May 31, 2020

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
Certificate of Deposit No. 6762691696	2.05%	08/12/20	\$ 240,660	\$ 3,947
TexPool	0.23%	Demand	<u>7,471,721</u>	<u>-</u>
			<u>7,712,381</u>	<u>3,947</u>
Debt Service Fund				
TexPool	0.23%	Demand	1,505,493	-
TexPool	0.23%	Demand	363,382	-
TexPool	0.23%	Demand	<u>1,721,539</u>	<u>-</u>
			<u>3,590,414</u>	<u>0</u>
Capital Projects Fund				
TexPool	0.23%	Demand	<u>76,843</u>	<u>0</u>
Totals			<u>\$ 11,379,638</u>	<u>\$ 3,947</u>

Cinco Southwest Municipal Utility District No. 3
Analysis of Taxes Levied and Receivable
Year Ended May 31, 2020

	Maintenance Taxes	Contract Taxes	Road Debt Service Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 5,054	\$ 15,978	\$ 1,251	\$ 7,043
Additions and corrections to prior years' taxes	<u>(89)</u>	<u>(285)</u>	<u>(22)</u>	<u>189</u>
Adjusted receivable, beginning of year	<u>4,965</u>	<u>15,693</u>	<u>1,229</u>	<u>7,232</u>
2019 Original Tax Levy	1,527,001	2,924,045	227,426	1,364,554
Additions and corrections	<u>4,658</u>	<u>8,920</u>	<u>694</u>	<u>4,164</u>
Adjusted tax levy	<u>1,531,659</u>	<u>2,932,965</u>	<u>228,120</u>	<u>1,368,718</u>
Total to be accounted for	1,536,624	2,948,658	229,349	1,375,950
Tax collections: Current year	(1,520,066)	(2,910,764)	(226,393)	(1,358,357)
Prior years	<u>(3,560)</u>	<u>(11,218)</u>	<u>(878)</u>	<u>(5,258)</u>
Receivable, end of year	<u><u>\$ 12,998</u></u>	<u><u>\$ 26,676</u></u>	<u><u>\$ 2,078</u></u>	<u><u>\$ 12,335</u></u>
Receivable, by Years				
2019	\$ 11,593	\$ 22,201	\$ 1,727	\$ 10,361
2018	<u>1,405</u>	<u>4,475</u>	<u>351</u>	<u>1,974</u>
Receivable, end of year	<u><u>\$ 12,998</u></u>	<u><u>\$ 26,676</u></u>	<u><u>\$ 2,078</u></u>	<u><u>\$ 12,335</u></u>

Cinco Southwest Municipal Utility District No. 3
Analysis of Taxes Levied and Receivable (Continued)
Year Ended May 31, 2020

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Property Valuations				
Land	\$ 148,711,070	\$ 148,746,670	\$ 139,116,340	\$ 133,615,400
Improvements	599,948,490	588,820,580	606,440,960	625,425,180
Personal property	4,159,730	3,943,990	3,878,060	2,987,870
Exemptions	<u>(101,049,228)</u>	<u>(73,253,460)</u>	<u>(78,473,570)</u>	<u>(73,647,370)</u>
Total property valuations	<u>\$ 651,770,062</u>	<u>\$ 668,257,780</u>	<u>\$ 670,961,790</u>	<u>\$ 688,381,080</u>
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.2100	\$ 0.2250	\$ 0.2200	\$ 0.2200
Contract tax rates	0.4500	0.5100	0.4900	0.5500
Road debt service tax rates	0.0350	0.0400	0.0400	0.0400
Maintenance tax rates*	<u>0.2350</u>	<u>0.1600</u>	<u>0.2500</u>	<u>0.3100</u>
Total tax rates per \$100 valuation	<u>\$ 0.9300</u>	<u>\$ 0.9350</u>	<u>\$ 1.0000</u>	<u>\$ 1.1200</u>
Tax Levy	<u>\$ 6,061,462</u>	<u>\$ 6,248,210</u>	<u>\$ 6,709,618</u>	<u>\$ 7,709,868</u>
Percent of Taxes Collected to Taxes Levied**	<u>99%</u>	<u>99%</u>	<u>100%</u>	<u>100%</u>

*Maximum tax rate approved by voters: \$1.50 on November 6, 2007

**Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2011		Total
	Principal Due September 1	Interest Due September 1, March 1	
2021	<u>\$ 145,000</u>	<u>\$ 2,900</u>	<u>\$ 147,900</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Road Series 2011		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ <u>85,000</u>	\$ <u>1,594</u>	\$ <u>86,594</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2012		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 310,000	\$ 13,640	\$ 323,640
2022	<u>310,000</u>	<u>4,650</u>	<u>314,650</u>
Totals	<u>\$ 620,000</u>	<u>\$ 18,290</u>	<u>\$ 638,290</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Road Series 2012		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ <u>35,000</u>	\$ <u>481</u>	\$ <u>35,481</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2012A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 65,000	\$ 41,113	\$ 106,113
2022	65,000	39,487	104,487
2023	65,000	37,798	102,798
2024	65,000	35,977	100,977
2025	65,000	34,060	99,060
2026	65,000	32,061	97,061
2027	65,000	29,981	94,981
2028	65,000	27,820	92,820
2029	65,000	25,610	90,610
2030	65,000	23,319	88,319
2031	65,000	20,946	85,946
2032	65,000	18,574	83,574
2033	65,000	16,169	81,169
2034	65,000	13,731	78,731
2035	65,000	11,261	76,261
2036	65,000	8,759	73,759
2037	65,000	6,256	71,256
2038	65,000	3,754	68,754
2039	65,000	1,251	66,251
Totals	<u>\$ 1,235,000</u>	<u>\$ 427,927</u>	<u>\$ 1,662,927</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2012B		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 80,000	\$ 48,055	\$ 128,055
2022	80,000	46,055	126,055
2023	80,000	43,975	123,975
2024	80,000	41,735	121,735
2025	80,000	39,375	119,375
2026	75,000	36,994	111,994
2027	75,000	34,594	109,594
2028	75,000	32,100	107,100
2029	75,000	29,550	104,550
2030	75,000	26,906	101,906
2031	75,000	24,169	99,169
2032	75,000	21,431	96,431
2033	75,000	18,656	93,656
2034	75,000	15,844	90,844
2035	75,000	12,994	87,994
2036	75,000	10,106	85,106
2037	75,000	7,219	82,219
2038	75,000	4,331	79,331
2039	75,000	1,444	76,444
Totals	<u>\$ 1,450,000</u>	<u>\$ 495,533</u>	<u>\$ 1,945,533</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2013		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 115,000	\$ 86,844	\$ 201,844
2022	115,000	83,106	198,106
2023	115,000	79,369	194,369
2024	115,000	75,631	190,631
2025	115,000	71,750	186,750
2026	115,000	67,725	182,725
2027	115,000	63,413	178,413
2028	115,000	58,812	173,812
2029	110,000	54,313	164,313
2030	110,000	49,637	159,637
2031	110,000	44,688	154,688
2032	110,000	39,737	149,737
2033	110,000	34,719	144,719
2034	110,000	29,631	139,631
2035	110,000	24,544	134,544
2036	110,000	19,250	129,250
2037	110,000	13,750	123,750
2038	110,000	8,250	118,250
2039	110,000	2,750	112,750
Totals	\$ 2,130,000	\$ 907,919	\$ 3,037,919

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2013A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 80,000	\$ 60,906	\$ 140,906
2022	80,000	58,106	138,106
2023	80,000	55,306	135,306
2024	80,000	52,507	132,507
2025	80,000	49,706	129,706
2026	80,000	46,906	126,906
2027	80,000	43,907	123,907
2028	80,000	40,706	120,706
2029	80,000	37,506	117,506
2030	80,000	34,156	114,156
2031	80,000	30,657	110,657
2032	80,000	27,156	107,156
2033	75,000	23,672	98,672
2034	75,000	20,203	95,203
2035	75,000	16,735	91,735
2036	75,000	13,125	88,125
2037	75,000	9,375	84,375
2038	75,000	5,625	80,625
2039	75,000	1,875	76,875
Totals	\$ 1,485,000	\$ 628,135	\$ 2,113,135

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2019		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 35,000	\$ 301,306	\$ 336,306
2022	190,000	297,931	487,931
2023	510,000	284,881	794,881
2024	525,000	264,181	789,181
2025	535,000	242,981	777,981
2026	545,000	221,381	766,381
2027	550,000	204,981	754,981
2028	550,000	193,294	743,294
2029	550,000	180,919	730,919
2030	555,000	163,631	718,631
2031	570,000	141,131	711,131
2032	580,000	118,131	698,131
2033	590,000	97,681	687,681
2034	600,000	79,831	679,831
2035	605,000	61,756	666,756
2036	610,000	43,532	653,532
2037	620,000	25,082	645,082
2038	255,000	11,798	266,798
2039	250,000	3,907	253,907
Totals	\$ 9,225,000	\$ 2,938,335	\$ 12,163,335

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	<u>Refunding Road Series 2019</u>		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 15,000	\$ 94,288	\$ 109,288
2022	140,000	91,963	231,963
2023	145,000	86,963	231,963
2024	150,000	81,063	231,063
2025	155,000	74,963	229,963
2026	165,000	69,388	234,388
2027	170,000	65,213	235,213
2028	170,000	61,600	231,600
2029	180,000	57,663	237,663
2030	180,000	52,038	232,038
2031	190,000	44,637	234,637
2032	195,000	36,937	231,937
2033	200,000	30,037	230,037
2034	205,000	23,962	228,962
2035	215,000	17,662	232,662
2036	220,000	11,137	231,137
2037	230,000	4,387	234,387
2038	15,000	703	15,703
2039	15,000	234	15,234
Totals	<u>\$ 2,955,000</u>	<u>\$ 904,838</u>	<u>\$ 3,859,838</u>

Cinco Southwest Municipal Utility District No. 3
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	\$ 965,000	\$ 651,127	\$ 1,616,127
2022	980,000	621,298	1,601,298
2023	995,000	588,292	1,583,292
2024	1,015,000	551,094	1,566,094
2025	1,030,000	512,835	1,542,835
2026	1,045,000	474,455	1,519,455
2027	1,055,000	442,089	1,497,089
2028	1,055,000	414,332	1,469,332
2029	1,060,000	385,561	1,445,561
2030	1,065,000	349,687	1,414,687
2031	1,090,000	306,228	1,396,228
2032	1,105,000	261,966	1,366,966
2033	1,115,000	220,934	1,335,934
2034	1,130,000	183,202	1,313,202
2035	1,145,000	144,952	1,289,952
2036	1,155,000	105,909	1,260,909
2037	1,175,000	66,069	1,241,069
2038	595,000	34,461	629,461
2039	590,000	11,461	601,461
Totals	<u>\$ 19,365,000</u>	<u>\$ 6,325,952</u>	<u>\$ 25,690,952</u>

Cinco Southwest Municipal Utility District No. 3
Changes in Long-term Bonded Debt
Year Ended May 31, 2020

	Bond			
	Series 2011	Road Series 2011	Series 2012	Road Series 2012
Interest rates	4.00%	3.75%	2.80% to 3.00%	2.75%
Dates interest payable	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1
Maturity dates	September 1, 2020	September 1, 2020	September 1, 2020/2021	September 1, 2020
Bonds outstanding, beginning of current year	\$ 4,205,000	\$ 2,425,000	\$ 6,140,000	\$ 700,000
Bonds sold during current year	-	-	-	-
Bonds refunded during the current year	3,920,000	2,260,000	5,210,000	630,000
Retirements, principal	140,000	80,000	310,000	35,000
Bonds outstanding, end of current year	\$ 145,000	\$ 85,000	\$ 620,000	\$ 35,000
Interest paid during current year	\$ 8,600	\$ 4,588	\$ 22,010	\$ 1,400

Paying agent's name and address:

Series 2011	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Road Series 2011	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Road Series 2012	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012B	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2013	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2013A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2019	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Road Series 2019	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax and Refunding Bonds	Parks and Recreational and Refunding Bonds	Road and Refunding Bonds
Amount authorized by voters	\$ 105,000,000	\$ 25,000,000	\$ 20,000,000
Amount issued	\$ 17,615,000	\$ 3,965,000	\$ 3,910,000
Remaining to be issued	\$ 87,385,000	\$ 21,035,000	\$ 16,090,000
Debt service fund cash and temporary investment balances as of May 31, 2020:			\$ 3,707,251
Average annual debt service payment (principal and interest) for remaining term of all debt:			\$ 1,352,155

Issues

Series 2012A	Series 2012B	Series 2013	Series 2013A	Refunding Series 2019	Refunding Road Series 2019	Totals
1.40% to 3.85%	1.40% to 3.85%	3.25% to 5.00%	3.50% to 5.00%	2.00% to 4.00%	2.00% to 4.00%	
September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	
September 1, 2020/2038	September 1, 2020/2038	September 1, 2020/2038	September 1, 2020/2038	September 1, 2020/2038	September 1, 2020/2038	
\$ 1,300,000	\$ 1,530,000	\$ 2,245,000	\$ 1,565,000	\$ -	\$ -	\$ 20,110,000
-	-	-	-	9,225,000	2,955,000	12,180,000
-	-	-	-	-	-	12,020,000
65,000	80,000	115,000	80,000	-	-	905,000
<u>\$ 1,235,000</u>	<u>\$ 1,450,000</u>	<u>\$ 2,130,000</u>	<u>\$ 1,485,000</u>	<u>\$ 9,225,000</u>	<u>\$ 2,955,000</u>	<u>\$ 19,365,000</u>
<u>\$ 42,689</u>	<u>\$ 49,995</u>	<u>\$ 90,581</u>	<u>\$ 63,706</u>	<u>\$ 226,373</u>	<u>\$ 70,884</u>	<u>\$ 580,826</u>

Cinco Southwest Municipal Utility District No. 3
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended May 31,

	Amounts				
	2020	2019	2018	2017	2016
General Fund					
Revenues					
Property taxes	\$ 1,523,626	\$ 1,075,853	\$ 1,690,101	\$ 2,130,599	\$ 2,178,329
Water service	523,400	529,531	480,839	484,610	498,584
Sewer service	445,365	417,783	462,918	466,984	453,821
Regional water fee	1,219,784	1,110,276	1,006,654	894,172	857,593
Penalty and interest	14,089	13,888	14,232	18,094	24,582
Tap connection and inspection fees	-	-	-	200	35,425
Investment income	110,694	141,397	71,901	22,378	5,014
Other income	16	22	-	-	-
	<u>3,836,974</u>	<u>3,288,750</u>	<u>3,726,645</u>	<u>4,017,037</u>	<u>4,053,348</u>
Total revenues					
Expenditures					
Service operations:					
Purchased services	927,830	927,828	854,568	854,570	849,849
Regional water fee	1,199,358	1,089,333	987,262	906,560	866,973
Professional fees	133,980	109,260	81,967	142,144	91,096
Contracted services	454,563	432,898	411,867	402,014	400,380
Repairs and maintenance	112,248	635,052	326,852	71,672	102,140
Other expenditures	80,540	98,336	79,581	77,283	57,484
Tap connections	-	-	-	-	20,710
Capital outlay	21,252	-	-	95,578	-
	<u>2,929,771</u>	<u>3,292,707</u>	<u>2,742,097</u>	<u>2,549,821</u>	<u>2,388,632</u>
Total expenditures					
Excess (Deficiency) of Revenues Over Expenditures	907,203	(3,957)	984,548	1,467,216	1,664,716
Fund Balance, Beginning of Year	<u>6,883,914</u>	<u>6,887,871</u>	<u>5,903,323</u>	<u>4,436,107</u>	<u>2,771,391</u>
Fund Balance, End of Year	<u>\$ 7,791,117</u>	<u>\$ 6,883,914</u>	<u>\$ 6,887,871</u>	<u>\$ 5,903,323</u>	<u>\$ 4,436,107</u>
Total Active Retail Water Connections	<u>1,786</u>	<u>1,788</u>	<u>1,788</u>	<u>1,790</u>	<u>1,780</u>
Total Active Retail Wastewater Connections	<u>1,726</u>	<u>1,723</u>	<u>1,723</u>	<u>1,725</u>	<u>1,715</u>

Percent of Fund Total Revenues

2020	2019	2018	2017	2016
39.7 %	32.7 %	45.4 %	53.0 %	53.7 %
13.6	16.1	12.9	12.1	12.3
11.6	12.7	12.4	11.6	11.2
31.8	33.8	27.0	22.3	21.2
0.4	0.4	0.4	0.5	0.6
-	-	-	0.0	0.9
2.9	4.3	1.9	0.5	0.1
0.0	0.0	-	-	-
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
24.2	28.2	22.9	21.3	20.9
31.3	33.1	26.5	22.6	21.4
3.5	3.3	2.2	3.5	2.1
11.8	13.2	11.1	10.0	9.9
2.9	19.3	8.8	1.8	2.5
2.1	3.0	2.1	1.9	1.6
-	-	-	-	0.5
0.6	-	-	2.4	-
<u>76.4</u>	<u>100.1</u>	<u>73.6</u>	<u>63.5</u>	<u>58.9</u>
<u>23.6 %</u>	<u>(0.1) %</u>	<u>26.4 %</u>	<u>36.5 %</u>	<u>41.1 %</u>

Cinco Southwest Municipal Utility District No. 3
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended May 31,

	Amounts				
	2020	2019	2018	2017	2016
Debt Service Fund					
Revenues					
Property taxes	\$ 4,512,868	\$ 5,189,457	\$ 5,060,471	\$ 5,566,842	\$ 5,741,071
Penalty and interest	19,307	22,707	47,393	48,230	47,121
Investment income	41,448	61,384	34,545	12,994	4,167
Other income	187	-	-	3,296	5,268
Total revenues	<u>4,573,810</u>	<u>5,273,548</u>	<u>5,142,409</u>	<u>5,631,362</u>	<u>5,797,627</u>
Expenditures					
Current:					
Contracted services	72,850	67,568	72,873	75,041	78,670
Other expenditures	9,532	11,659	20,431	27,073	21,398
Debt service:					
Principal retirement	905,000	900,000	890,000	885,000	870,000
Interest and fees	585,623	839,155	865,620	890,743	915,534
Debt issuance costs	427,111	12,180	-	-	-
Debt defeasance	152,000	-	-	-	-
Contractual obligation	<u>3,185,018</u>	<u>3,269,831</u>	<u>3,542,610</u>	<u>3,859,747</u>	<u>3,837,073</u>
Total expenditures	<u>5,337,134</u>	<u>5,100,393</u>	<u>5,391,534</u>	<u>5,737,604</u>	<u>5,722,675</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(763,324)</u>	<u>173,155</u>	<u>(249,125)</u>	<u>(106,242)</u>	<u>74,952</u>
Other Financing Sources (Uses)					
General obligation bonds issued	12,180,000	-	-	-	-
Payments to escrow agent	(12,072,433)	-	-	-	-
Premium on debt issued	<u>347,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>454,647</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(308,677)</u>	<u>173,155</u>	<u>(249,125)</u>	<u>(106,242)</u>	<u>74,952</u>
Fund Balance, Beginning of Year	<u>3,998,634</u>	<u>3,825,479</u>	<u>4,074,604</u>	<u>4,180,846</u>	<u>4,105,894</u>
Fund Balance, End of Year	<u><u>\$ 3,689,957</u></u>	<u><u>\$ 3,998,634</u></u>	<u><u>\$ 3,825,479</u></u>	<u><u>\$ 4,074,604</u></u>	<u><u>\$ 4,180,846</u></u>

Percent of Fund Total Revenues

2020	2019	2018	2017	2016
98.7 %	98.4 %	98.4 %	98.8 %	99.0 %
0.4	0.4	0.9	0.9	0.8
0.9	1.2	0.7	0.2	0.1
<u>0.0</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.1</u>
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
1.6	1.3	1.4	1.3	1.4
0.2	0.2	0.4	0.5	0.3
19.8	17.1	17.3	15.7	15.0
12.8	15.9	16.8	15.8	15.8
9.3	0.2	-	-	-
3.3	-	-	-	-
<u>69.6</u>	<u>62.0</u>	<u>68.9</u>	<u>68.6</u>	<u>66.2</u>
<u>116.6</u>	<u>96.7</u>	<u>104.8</u>	<u>101.9</u>	<u>98.7</u>
<u><u>(16.6) %</u></u>	<u><u>3.3 %</u></u>	<u><u>(4.8) %</u></u>	<u><u>(1.9) %</u></u>	<u><u>1.3 %</u></u>

Cinco Southwest Municipal Utility District No. 3
Board Members, Key Personnel and Consultants
Year Ended May 31, 2020

Complete District mailing address:	Cinco Southwest Municipal Utility District No. 3 Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	May 18, 2020
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
James Blake	Elected 05/20- 05/24	\$ 2,700	\$ 264	President
David Berry	Elected 05/20- 05/24	750	28	Vice President
Kristina Bozoarth	Appointed 07/19- 05/22	1,800	278	Secretary
Jordan Konesheck	Appointed 05/20- 05/22	0	0	Assistant Vice President
Richard McLarty	Elected 05/20- 05/24	900	6	Assistant Secretary
Blair Bozoarth	Appointed 02/18- 07/19	750	139	Resigned

*Fees are the amounts actually paid to a director during the District's fiscal year.

Cinco Southwest Municipal Utility District No. 3
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2020

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
A. David Schwarz III	Elected 05/16- 06/19	\$ 150	\$ 5	Resigned
Talytha Webb	Elected 05/18- 01/20	1,200	181	Resigned
Lewis White	Appointed 09/18- 01/20	450	35	Resigned

*Fees are the amounts actually paid to a director during the District's fiscal year.

Cinco Southwest Municipal Utility District No. 3
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2020

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	04/12/07	\$ 97,400 132,265	General Counsel Bond Counsel
BGE, Inc.	09/20/12	42,281	Engineer
BKD, LLP	06/20/08	16,600	Auditor
FMatuska, Inc.	04/12/07	12,375	Bookkeeper
Fort Bend Central Appraisal District	Legislative Action	47,315	Appraiser
Inframark, LLC	04/12/07	222,587	Operator
Masterson Advisors LLC	04/23/18	125,410	Financial Advisor
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	11/01/12	2,002	Delinquent Tax Attorney
Utility Tax Service, LLC	04/12/07	33,015	Tax Assessor/ Collector
Investment Officer			
Fran Matuska	04/12/07	N/A	Bookkeeper

Cinco Southwest Municipal Utility District No. 4

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2020



Cinco Southwest Municipal Utility District No. 4
May 31, 2020

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Independent Auditor's Report

Board of Directors
Cinco Southwest Municipal Utility District No. 4
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Cinco Southwest Municipal Utility District No. 4 (the District), as of and for the year ended May 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 May 31, 2020, and the respective changes in financial position thereof 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 budgetary comparison schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
October 2, 2020

Cinco Southwest Municipal Utility District No. 4

Management's Discussion and Analysis

May 31, 2020

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Cinco Southwest Municipal Utility District No. 4
Management's Discussion and Analysis (Continued)
May 31, 2020

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Cinco Southwest Municipal Utility District No. 4
Management's Discussion and Analysis (Continued)
May 31, 2020

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 11,309,285	\$ 11,198,730
Capital assets	<u>12,413,933</u>	<u>12,891,047</u>
Total assets	<u>23,723,218</u>	<u>24,089,777</u>
Deferred outflows of resources	<u>1,690,614</u>	<u>1,669,073</u>
Total assets and deferred outflows of resources	<u>\$ 25,413,832</u>	<u>\$ 25,758,850</u>
Long-term liabilities	\$ 22,960,836	\$ 23,938,560
Other liabilities	<u>581,532</u>	<u>568,469</u>
Total liabilities	<u>23,542,368</u>	<u>24,507,029</u>
Net position:		
Net investment in capital assets	(8,856,289)	(9,378,440)
Restricted	4,738,300	4,899,578
Unrestricted	<u>5,989,453</u>	<u>5,730,683</u>
Total net position	<u>\$ 1,871,464</u>	<u>\$ 1,251,821</u>

The total net position of the District increased by \$619,643, or about 49 percent. The majority of the increase in net position is related to property tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as a long-term liability in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Cinco Southwest Municipal Utility District No. 4
Management's Discussion and Analysis (Continued)
May 31, 2020

Summary of Changes in Net Position

	<u>2020</u>	<u>2019</u>
Revenues:		
Property taxes	\$ 6,563,359	\$ 6,547,006
Charges for services	2,576,532	2,327,278
Other revenues	<u>267,297</u>	<u>252,801</u>
Total revenues	<u>9,407,188</u>	<u>9,127,085</u>
Expenses:		
Services	3,572,619	3,159,042
Depreciation	477,114	477,114
Debt service	1,003,622	953,337
Contractual obligation	<u>3,734,190</u>	<u>3,848,784</u>
Total expenses	<u>8,787,545</u>	<u>8,438,277</u>
Change in net position	619,643	688,808
Net position, beginning of year	<u>1,251,821</u>	<u>563,013</u>
Net position, end of year	<u>\$ 1,871,464</u>	<u>\$ 1,251,821</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended May 31, 2020, were \$10,791,369, an increase of \$39,334 from the prior year.

The general fund's fund balance increased by \$252,035. This increase was primarily related to property taxes, water and sewer services, and regional water authority revenues in excess of service operations expenditures.

The debt service fund's fund balance decreased by \$212,701 because contractual obligation, bond principal retirement, and interest and fees expenditures were greater than property tax revenues generated.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to property taxes revenues and regional water authority revenues and expenditures being greater than anticipated, as well as repairs and maintenance and

Cinco Southwest Municipal Utility District No. 4
Management's Discussion and Analysis (Continued)
May 31, 2020

capital outlay expenditures being less than anticipated. In addition, a transfer to the debt service fund was not budgeted. The fund balance as of May 31, 2020, was expected to be \$5,592,335 and the actual end-of-year fund balance was \$5,969,934.

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below:

Capital Assets (Net of Accumulated Depreciation)

	2020	2019
Land and improvements	\$ 731,579	\$ 731,579
Water facilities	2,210,371	2,274,510
Wastewater facilities	3,477,084	3,577,709
Drainage facilities	4,303,806	4,429,260
Roads	1,691,093	1,877,989
Total capital assets	\$ 12,413,933	\$ 12,891,047

During the current year, there were no additions to capital assets.

Debt

The changes in the debt position of the District during the fiscal year ended May 31, 2020, are summarized as follows:

Long-term debt payable, beginning of year	\$ 23,938,560
Increases in long-term debt	2,466,206
Decreases in long-term debt	(3,443,930)
Long-term debt payable, end of year	\$ 22,960,836

At May 31, 2020, the District had \$87,915,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District. In addition, the District has \$14,180,000 and \$18,615,000 in authorized, but unissued, tax road bonds and unlimited tax park bonds, respectively.

Cinco Southwest Municipal Utility District No. 4
Management's Discussion and Analysis (Continued)
May 31, 2020

The District's bonds carry an underlying rating of "BBB" from Standard & Poor's (S&P) and "A2" from Moody's Investors Service (Moody's). The Series 2011A, 2012 and Refunding 2019 bonds carry a "AA" rating from S&P by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2014, Refunding 2015, Refunding 2016 and Road Refunding 2017 bonds carry a "AA" rating from S&P by virtue of bond insurance issued by Build America Mutual Assurance Company.

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City for full purposes without the District's consent, except as set forth below.

Effective December 5, 2007, the District entered into a Strategic Partnership Agreement, as amended in 2009 and 2010 (the Agreement), with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years from December 5, 2007, at which time the City has the option to annex the District if it chooses to do so.

Subsequent Event

Subsequent to year-end, the District issued \$1,855,000 in Unlimited Tax Refunding Bonds, Series 2020, to refund \$445,000 of outstanding Series 2011 Bonds and \$1,325,000 of outstanding Series 2012 Bonds. The District refunded the bonds to reduce total debt service payments over future years by \$273,986 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$220,580.

Cinco Southwest Municipal Utility District No. 4
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2020

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 168,213	\$ 560,026	\$ 728,239	\$ -	\$ 728,239
Short-term investments	5,915,716	4,301,799	10,217,515	-	10,217,515
Receivables:					
Property taxes	19,519	96,076	115,595	-	115,595
Service accounts	203,903	-	203,903	-	203,903
Accrued penalty and interest	-	-	-	21,362	21,362
Interfund receivable	28,131	-	28,131	(28,131)	-
Due from City of Houston	7,292	-	7,292	3,950	11,242
Due from others	3,869	-	3,869	-	3,869
Prepaid expenditures	7,560	-	7,560	-	7,560
Capital assets, (net of accumulated depreciation):					
Land and improvements	-	-	-	731,579	731,579
Roads	-	-	-	1,691,093	1,691,093
Infrastructure	-	-	-	9,991,261	9,991,261
Total assets	6,354,203	4,957,901	11,312,104	12,411,114	23,723,218
Deferred Outflows of Resources					
Deferred amount on debt refundings	0	0	0	1,690,614	1,690,614
Total assets and deferred outflows of resources	\$ 6,354,203	\$ 4,957,901	\$ 11,312,104	\$ 14,101,728	\$ 25,413,832

Cinco Southwest Municipal Utility District No. 4
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
May 31, 2020

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Liabilities					
Accounts payable	\$ 271,897	\$ 12,259	\$ 284,156	\$ -	\$ 284,156
Accrued interest payable	-	-	-	200,573	200,573
Customer deposits	81,282	-	81,282	-	81,282
Due to others	11,571	-	11,571	3,950	15,521
Interfund payable	-	28,131	28,131	(28,131)	-
Long-term liabilities:					
Due within one year	-	-	-	1,115,000	1,115,000
Due after one year	-	-	-	21,845,836	21,845,836
Total liabilities	<u>364,750</u>	<u>40,390</u>	<u>405,140</u>	<u>23,137,228</u>	<u>23,542,368</u>
Deferred Inflows of Resources					
Deferred property tax revenues	<u>19,519</u>	<u>96,076</u>	<u>115,595</u>	<u>(115,595)</u>	<u>0</u>
Fund Balances/Net Position					
Fund balances:					
Nonspendable, prepaid expenditures	7,560	-	7,560	(7,560)	-
Restricted, unlimited tax bonds	-	4,821,435	4,821,435	(4,821,435)	-
Assigned to future expenditures	66,852	-	66,852	(66,852)	-
Unassigned	<u>5,895,522</u>	<u>-</u>	<u>5,895,522</u>	<u>(5,895,522)</u>	<u>-</u>
Total fund balances	<u>5,969,934</u>	<u>4,821,435</u>	<u>10,791,369</u>	<u>(10,791,369)</u>	<u>0</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,354,203</u>	<u>\$ 4,957,901</u>	<u>\$ 11,312,104</u>		
Net position:					
Net investment in capital assets				(8,856,289)	(8,856,289)
Restricted for debt service				4,738,300	4,738,300
Unrestricted				<u>5,989,453</u>	<u>5,989,453</u>
Total net position				<u>\$ 1,871,464</u>	<u>\$ 1,871,464</u>

Cinco Southwest Municipal Utility District No. 4
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended May 31, 2020

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues					
Property taxes	\$ 1,112,816	\$ 5,415,267	\$ 6,528,083	\$ 35,276	\$ 6,563,359
Water service	997,788	-	997,788	-	997,788
Sewer service	260,340	-	260,340	-	260,340
Regional water authority	1,318,404	-	1,318,404	-	1,318,404
Penalty and interest	21,859	30,872	52,731	4,419	57,150
Investment income	91,872	46,304	138,176	-	138,176
Other income	53,730	18,241	71,971	-	71,971
Total revenues	3,856,809	5,510,684	9,367,493	39,695	9,407,188
Expenditures/Expenses					
Service operations:					
Purchased services	914,562	-	914,562	-	914,562
Regional water authority	1,329,963	-	1,329,963	-	1,329,963
Professional fees	126,278	-	126,278	316,124	442,402
Contracted services	239,063	28,360	267,423	-	267,423
Solid waste	354,350	-	354,350	-	354,350
Repairs and maintenance	119,167	-	119,167	-	119,167
Other expenditures	78,267	66,485	144,752	-	144,752
Capital outlay	316,124	-	316,124	(316,124)	-
Depreciation	-	-	-	477,114	477,114
Debt service:					
Contractual obligation	-	3,734,190	3,734,190	-	3,734,190
Principal retirement	-	1,060,000	1,060,000	(1,060,000)	-
Interest and fees	-	812,964	812,964	67,158	880,122
Debt issuance costs	-	123,500	123,500	-	123,500
Debt defeasance	-	157,000	157,000	(157,000)	-
Total expenditures/expenses	3,477,774	5,982,499	9,460,273	(672,728)	8,787,545
Excess (Deficiency) of Revenues Over Expenditures	379,035	(471,815)	(92,780)	712,423	

Cinco Southwest Municipal Utility District No. 4
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances (Continued)
Year Ended May 31, 2020

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Other Financing Sources (Uses)					
Interfund transfers in (out)	\$ (127,000)	\$ 127,000	\$ -	\$ -	
General obligation bonds issued	-	2,450,000	2,450,000	(2,450,000)	
Premium on debt issued	-	16,206	16,206	(16,206)	
Deposit with escrow agent	-	(2,334,092)	(2,334,092)	2,334,092	
	<u>(127,000)</u>	<u>259,114</u>	<u>132,114</u>	<u>(132,114)</u>	
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses					
	252,035	(212,701)	39,334	(39,334)	
Change in Net Position					
				619,643	\$ 619,643
Fund Balances/Net Position					
Beginning of year	<u>5,717,899</u>	<u>5,034,136</u>	<u>10,752,035</u>	-	<u>1,251,821</u>
End of year	<u>\$ 5,969,934</u>	<u>\$ 4,821,435</u>	<u>\$ 10,791,369</u>	<u>\$ 0</u>	<u>\$ 1,871,464</u>

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Cinco Southwest Municipal Utility District No. 4 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission) effective March 7, 2007. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

Cinco Southwest Municipal Utility District No. 4

Noted to Financial Statements

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The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended May 31, 2020, include collections during the current period or within 60 days of year-end related to the 2019 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended May 31, 2020, the 2019 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45
Roads	10-45
Park and recreational facilities	10-45

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 12,413,933
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	115,595
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	21,362
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	1,690,614
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(200,573)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(22,960,836)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ (8,919,905)</u></u>

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	\$	39,334
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and noncapitalized expenditures exceeded capital outlay expenditures in the current year.		(477,114)
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		(16,206)
Governmental funds report proceeds from the sale of bonds and bond anticipation notes because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position.		1,101,092
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.		39,695
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(67,158)
Change in net position of governmental activities.	\$	<u><u>619,643</u></u>

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At May 31, 2020, none of the District's bank balances were exposed to custodial credit risk.

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At May 31, 2020, the District had the following investments and maturities:

Type	Maturities in Years				
	Amortized Cost	Less Than 1	1-5	6-10	More Than 10
TexPool	<u>\$10,217,515</u>	<u>\$10,217,515</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2020, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheet and statement of net position at May 31, 2020, as follows.

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

Carrying value:		
Deposits		\$ 728,239
Investments		<u>10,217,515</u>
Total		<u><u>\$ 10,945,754</u></u>

Investment Income

Investment income of \$138,176 for the year ended May 31, 2020, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended May 31, 2020, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 731,579	\$ 0	\$ 731,579
Capital assets, depreciable:			
Water production and distribution facilities	2,877,668	-	2,877,668
Wastewater collection and treatment facilities	4,511,705	-	4,511,705
Drainage facilities	5,629,210	-	5,629,210
Roads	<u>3,955,204</u>	<u>-</u>	<u>3,955,204</u>
Total capital assets, depreciable	<u>16,973,787</u>	<u>0</u>	<u>16,973,787</u>
Less accumulated depreciation:			
Water production and distribution facilities	(603,158)	(64,139)	(667,297)
Wastewater collection and treatment facilities	(933,996)	(100,625)	(1,034,621)
Drainage facilities	(1,199,950)	(125,454)	(1,325,404)
Roads	<u>(2,077,215)</u>	<u>(186,896)</u>	<u>(2,264,111)</u>
Total accumulated depreciation	<u>(4,814,319)</u>	<u>(477,114)</u>	<u>(5,291,433)</u>
Total governmental activities, net	<u><u>\$ 12,891,047</u></u>	<u><u>\$ (477,114)</u></u>	<u><u>\$ 12,413,933</u></u>

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended May 31, 2020, were as follows:

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
General obligation bonds	\$ 23,175,000	\$ 2,450,000	\$ 3,510,000	\$ 22,115,000	\$ 1,115,000
Add premiums on bonds	984,167	16,206	44,913	955,460	-
Less discounts on bonds	220,607	-	110,983	109,624	-
Total governmental activities long-term liabilities	<u>\$ 23,938,560</u>	<u>\$ 2,466,206</u>	<u>\$ 3,443,930</u>	<u>\$ 22,960,836</u>	<u>\$ 1,115,000</u>

General Obligation Bonds

	Series 2010	Road Series 2010
Amounts outstanding, May 31, 2020	\$180,000	\$120,000
Interest rates	4.60%	4.10%
Maturity dates, serially beginning/ending	September 1, 2020	September 1, 2020
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2018	September 1, 2018
	Series 2010A	Series 2011
Amounts outstanding, May 31, 2020	\$75,000	\$475,000
Interest rates	4.75%	3.75% to 5.00%
Maturity dates, serially beginning/ending	September 1, 2020	September 1, 2020/2036
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2018	September 1, 2019

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

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	Series 2011A	Series 2012
Amounts outstanding, May 31, 2020	\$245,000	\$1,685,000
Interest rates	4.00%	3.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2020/2021	September 1, 2020/2038
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2019	September 1, 2019
	Series 2012A	Series 2014
Amounts outstanding, May 31, 2020	\$180,000	\$1,735,000
Interest rates	2.50% to 3.40%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2020/2023	September 1, 2020/2038
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2019	September 1, 2022
	Refunding Series 2015	Refunding Series 2016
Amounts outstanding, May 31, 2020	\$4,120,000	\$6,500,000
Interest rates	2.00% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2020/2034	September 1, 2020/2036
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2023	September 1, 2023
	Road Refunding Series 2017	Refunding Series 2019
Amounts outstanding, May 31, 2020	\$4,350,000	\$2,450,000
Interest rates	3.00% to 4.00%	2.25% to 3.00%
Maturity dates, serially beginning/ending	September 1, 2020/2035	September 1, 2020/2038
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2024	September 1, 2024

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at May 31, 2020:

Year	Principal	Interest	Total
2021	\$ 1,115,000	\$ 783,820	\$ 1,898,820
2022	1,135,000	749,110	1,884,110
2023	1,160,000	716,847	1,876,847
2024	1,185,000	681,606	1,866,606
2025	1,205,000	641,104	1,846,104
2026-2030	6,605,000	2,498,211	9,103,211
2031-2035	7,690,000	1,143,920	8,833,920
2036-2039	<u>2,020,000</u>	<u>93,815</u>	<u>2,113,815</u>
Total	<u>\$ 22,115,000</u>	<u>\$ 7,308,433</u>	<u>\$ 29,423,433</u>

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

Unlimited tax and refunding bonds voted	\$ 105,000,000
Unlimited tax and refunding bonds sold	17,085,000
Unlimited tax road and refunding bonds voted	20,000,000
Unlimited tax road and refunding bonds sold	5,820,000
Unlimited tax park and refunding bonds voted	25,000,000
Unlimited tax park and refunding bonds sold	6,385,000

Note 5: Significant Bond Resolution and Commission Requirements

- A. The Bond Resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended May 31, 2020, the District levied an ad valorem debt service tax at the rate of \$0.2000 per \$100 of assessed valuation, which resulted in a tax levy of \$1,570,839 on the taxable valuation of \$785,419,446 for the 2019 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$1,543,273 of which \$316,636 has been paid and \$1,226,637 is due on September 1, 2020.
- B. At an election held November 6, 2007, voters authorized a road debt service tax sufficient to pay principal and interest on road bonds when due. During the year ended May 31, 2020, the District levied an ad valorem road debt service tax at the rate of \$0.0350 per \$100 of assessed valuation, which resulted in a tax levy of \$274,897 on the taxable valuation of \$785,419,446

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

for the 2019 tax year. The interest and principal requirements to be paid from the road debt service tax revenues and available resources are \$374,020 of which \$84,510 has been paid and \$289,510 is due on September 1, 2020.

Note 6: Maintenance Taxes

At an election held November 6, 2007, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2020, the District levied an ad valorem maintenance tax at the rate of \$0.1429 per \$100 of assessed valuation, which resulted in a tax levy of \$1,122,364 on the taxable valuation of \$785,419,446 for the 2019 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

At an election held November 6, 2007, voters authorized a road maintenance tax not to exceed \$0.25 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2020, the District did not levy an ad valorem road maintenance tax for the 2019 tax year. The road maintenance tax will be used by the general fund to pay expenditures for maintenance of certain roads within the District.

Note 7: Contract Taxes

At an election held November 6, 2007, voters authorized a contract tax on all property within the District subject to taxation. During the year ended May 31, 2020, the District levied an ad valorem contract tax at the rate of \$0.460 per \$100 of assessed valuation, which resulted in a tax levy of \$3,612,930 on the taxable valuation of \$785,419,446 for 2019 tax year. This contract tax is used to pay for its pro rata share of principal and interest on the District's contract revenue bonds as described in Note 8.

Note 8: Financing and Operation of Regional Facilities

On November 16, 2007, the District entered into a regional contract with Cinco Southwest Municipal Utility District No. 1 (District No. 1). District No. 1 agreed to provide, or cause to be provided, the regional water supply and delivery facilities and the regional waste collection, treatment and disposal facilities necessary to serve the District. Under the terms of the regional contract, which is in effect for 40 years, District No. 1 charges the District a monthly operational fee calculated by multiplying the unit cost per connection by the number of equivalent single-family residential connections reserved to each participant. For the year ended May 31, 2020, the District incurred \$914,562 for the purchase of water and sewer service.

In addition, District No. 1 is authorized to issue contract revenue bonds sufficient to complete acquisition and construction of the facilities, as needed, to serve all districts in the service area. Each participating district contributes to the payment of debt service requirements of the bonds, based on

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

the certified assessed valuation of each participant as a percentage of the total assessed valuation of all participating districts. During the current year, the District paid \$3,734,190 for its pro rata share (approximately 35 percent) of the principal and interest of District No. 1's bonds.

The debt service requirements on District No. 1's bonds outstanding, as disclosed in its annual financial report as of May 31, 2020, are as follows:

Year	Principal	Interest	Total
2021	\$ 6,885,000	\$ 4,140,582	\$ 11,025,582
2022	6,955,000	3,902,323	10,857,323
2023	6,975,000	3,702,284	10,677,284
2024	7,005,000	3,491,793	10,496,793
2025	7,070,000	3,267,507	10,337,507
2026-2030	36,000,000	12,801,945	48,801,945
2031-2035	36,590,000	6,526,842	43,116,842
2036-2039	13,770,000	1,249,599	15,019,599
Total	<u>\$ 121,250,000</u>	<u>\$ 39,082,875</u>	<u>\$ 160,332,875</u>

Note 9: Strategic Partnership

The District has entered into a Strategic Partnership Agreement (the Agreement) with the City of Houston (the City). Pursuant to the terms of the Agreement, certain commercial tracts (currently undeveloped) within the District have been annexed into the City for limited purposes and the City has imposed a 1 percent sales and use tax (but no property tax) within the areas of limited-purpose annexation and agreed to remit one-half of such sales and use tax to the District to be used for any lawful District purpose. The District, along with the other districts in the Cinco Ranch Development, has agreed to utilize the Agreement revenue to pay joint operating and maintenance costs. District No. 1, by agreement with districts in its service area, will manage the expenditure of the Agreement revenues. Such revenues are not available to pay the principal of or interest on the bonds.

The Agreement further provides that the City may not annex the District for "full purposes" until 30 years from the effective date of the Agreement, as amended in 2009 and 2010 (December 5, 2007). Prior to the full purpose annexation of the District, property within the District is not subject to the City's ad valorem property tax and District residents are not allowed to vote in City elections for bond issues or charter amendments.

Note 10: Regional Water Authority

The District is within the boundaries of the North Fort Bend Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water

Cinco Southwest Municipal Utility District No. 4
Noted to Financial Statements
May 31, 2020

in order to meet conversion requirements mandated by the Fort Bend Subsidence District, which regulates groundwater withdrawal. As of May 31, 2020, the Authority was billing District No. 1 \$3.95 per 1,000 gallons of water pumped from its wells and \$4.30 per 1,000 gallons of surface water received. These amounts are subject to future increases.

Note 11: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District participates, along with other entities, in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 12: Refunding Bonds

On June 5, 2019, the District issued \$2,450,000 in Unlimited Tax Park Refunding Bonds, Series 2019, to refund \$1,800,000 of outstanding Series 2011A bonds and \$650,000 of outstanding Series 2012A bonds. The District refunded the bonds to reduce total debt service payments over future years by \$253,605 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$147,153.

Note 13: Uncertainties

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position and results of operations of the District. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 14: Subsequent Event

Subsequent to year-end, the District issued \$1,855,000 in Unlimited Tax Refunding Bonds, Series 2020, to refund \$445,000 of outstanding Series 2011 Bonds and \$1,325,000 of outstanding Series 2012 Bonds. The District refunded the bonds to reduce total debt service payments over future years by \$273,986 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$220,580.

Required Supplementary Information

Cinco Southwest Municipal Utility District No. 4
Budgetary Comparison Schedule – General Fund
Year Ended May 31, 2020

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 1,000,000	\$ 1,000,000	\$ 1,112,816	\$ 112,816
Water service	970,000	970,000	997,788	27,788
Sewer service	229,000	229,000	260,340	31,340
Regional water authority	1,187,600	1,187,600	1,318,404	130,804
Penalty and interest	17,000	17,000	21,859	4,859
Tap connection and inspection fees	5,000	5,000	-	(5,000)
Investment income	114,000	114,000	91,872	(22,128)
Other income	20,000	20,000	53,730	33,730
	<u>3,542,600</u>	<u>3,542,600</u>	<u>3,856,809</u>	<u>314,209</u>
Expenditures				
Service operations:				
Purchased services	914,364	914,364	914,562	(198)
Regional water authority	1,187,600	1,187,600	1,329,963	(142,363)
Professional fees	118,000	118,000	126,278	(8,278)
Contracted services	239,000	239,000	239,063	(63)
Solid waste	360,000	360,000	354,350	5,650
Repairs and maintenance	334,000	334,000	119,167	214,833
Other expenditures	113,200	113,200	78,267	34,933
Capital outlay	-	400,000	316,124	83,876
Tap connections	2,000	2,000	-	2,000
	<u>3,268,164</u>	<u>3,668,164</u>	<u>3,477,774</u>	<u>190,390</u>
Excess (Deficiency) of Revenues Over Expenditures	274,436	(125,564)	379,035	504,599
Other Financing Uses				
Interfund transfers out	-	-	(127,000)	(127,000)
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	274,436	(125,564)	252,035	377,599
Fund Balance, Beginning of Year	<u>5,717,899</u>	<u>5,717,899</u>	<u>5,717,899</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 5,992,335</u>	<u>\$ 5,592,335</u>	<u>\$ 5,969,934</u>	<u>\$ 377,599</u>

Cinco Southwest Municipal Utility District No. 4
Notes to Required Supplementary Information
May 31, 2020

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was amended during fiscal 2020.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Cinco Southwest Municipal Utility District No. 4
Other Schedules Included Within This Report
May 31, 2020

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 13-27
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Cinco Southwest Municipal Utility District No. 4

Schedule of Services and Rates

Year Ended May 31, 2020

1. Services provided by the District:

<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 checked="" type="checkbox"/> Security
<input checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input checked="" type="checkbox"/> Roads
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other _____		

2. Retail service providers

a. Retail rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 13.75	1,000	N	\$ 1.05	1,001 to 30,000
				\$ 1.50	30,001 to No Limit
Wastewater:	\$ 13.75	1,000	N	\$ 1.45	1,001 to No Limit
Regional water fee:	\$ 4.47	0	N	\$ 4.47	

Does the District employ winter averaging for wastewater usage?

Yes No

Total charges per 10,000 gallons usage (including fees):

Water \$ 67.90 Wastewater \$ 26.80

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	1,456	1,452	x1.0	1,452
1"	279	278	x2.5	695
1 1/2"	39	36	x5.0	180
2"	21	21	x8.0	168
3"	-	-	x15.0	-
4"	-	-	x25.0	-
6"	-	-	x50.0	-
8"	3	3	x80.0	240
10"	-	-	x115.0	-
Total water	1,798	1,790		2,735
Total wastewater	1,709	1,705	x1.0	1,705

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	312,694
Gallons billed to customers:	312,694
Water accountability ratio (gallons billed/gallons pumped):	100.00%

*"ESFC" means equivalent single-family connections

Cinco Southwest Municipal Utility District No. 4
Schedule of General Fund Expenditures
Year Ended May 31, 2020

Personnel (including benefits)		\$ -
Professional Fees		
Auditing	\$ 17,600	
Legal	94,046	
Engineering	14,632	
Financial advisor	<u>-</u>	126,278
Purchased Services for Resale		
Bulk water and wastewater service purchases		914,562
Regional Water Fee		1,329,963
Contracted Services		
Bookkeeping	12,885	
General manager	-	
Appraisal district	-	
Tax collector	-	
Security	119,535	
Other contracted services	<u>106,643</u>	239,063
Utilities		-
Repairs and Maintenance		119,167
Administrative Expenditures		
Directors' fees	17,550	
Office supplies	10,822	
Insurance	2,444	
Other administrative expenditures	<u>47,451</u>	78,267
Capital Outlay		
Capitalized assets	-	
Expenditures not capitalized	<u>316,124</u>	316,124
Tap Connection Expenditures		-
Solid Waste Disposal		354,350
Fire Fighting		-
Parks and Recreation		-
Other Expenditures		<u>-</u>
Total expenditures		<u><u>\$ 3,477,774</u></u>

Cinco Southwest Municipal Utility District No. 4
Schedule of Temporary Investments
May 31, 2020

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
TexPool	0.23%	Demand	<u>\$ 5,915,716</u>	<u>\$ 0</u>
Debt Service Fund				
TexPool	0.23%	Demand	1,660,833	-
TexPool	0.23%	Demand	1,844,154	-
TexPool	0.23%	Demand	<u>796,812</u>	<u>-</u>
			<u>4,301,799</u>	<u>0</u>
Totals			<u><u>\$ 10,217,515</u></u>	<u><u>\$ 0</u></u>

Cinco Southwest Municipal Utility District No. 4
Analysis of Taxes Levied and Receivable
Year Ended May 31, 2020

	Maintenance Taxes	Contract Taxes	Debt Service Road Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 12,784	\$ 45,085	\$ 4,406	\$ 18,044
Additions and corrections to prior years' taxes	<u>(2,813)</u>	<u>(9,908)</u>	<u>(971)</u>	<u>(3,979)</u>
Adjusted receivable, beginning of year	<u>9,971</u>	<u>35,177</u>	<u>3,435</u>	<u>14,065</u>
 2019 Original Tax Levy	 1,122,309	 3,612,752	 274,883	 1,570,762
Additions and corrections	<u>55</u>	<u>178</u>	<u>14</u>	<u>77</u>
Adjusted tax levy	<u>1,122,364</u>	<u>3,612,930</u>	<u>274,897</u>	<u>1,570,839</u>
Total to be accounted for	1,132,335	3,648,107	278,332	1,584,904
Tax collections: Current year	(1,105,728)	(3,559,376)	(270,822)	(1,547,555)
Prior years	<u>(7,088)</u>	<u>(24,993)</u>	<u>(2,428)</u>	<u>(10,093)</u>
Receivable, end of year	<u>\$ 19,519</u>	<u>\$ 63,738</u>	<u>\$ 5,082</u>	<u>\$ 27,256</u>
 Receivable, by Years				
2019	\$ 16,636	\$ 53,554	\$ 4,075	\$ 23,284
2018	887	3,172	307	1,296
2017	488	1,607	157	614
2016	644	2,174	222	825
2015	590	2,244	228	856
2014	115	452	42	178
2013	<u>159</u>	<u>535</u>	<u>51</u>	<u>203</u>
Receivable, end of year	<u>\$ 19,519</u>	<u>\$ 63,738</u>	<u>\$ 5,082</u>	<u>\$ 27,256</u>

Cinco Southwest Municipal Utility District No. 4
Analysis of Taxes Levied and Receivable (Continued)
Year Ended May 31, 2020

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Property Valuations				
Land	\$ 157,705,765	\$ 157,421,625	\$ 146,724,215	\$ 145,595,795
Improvements	651,009,108	652,755,303	646,834,825	648,167,595
Personal property	7,851,075	8,649,300	8,074,600	7,168,650
Exemptions	<u>(31,146,502)</u>	<u>(29,630,252)</u>	<u>(23,525,747)</u>	<u>(19,401,966)</u>
Total property valuations	<u>\$ 785,419,446</u>	<u>\$ 789,195,976</u>	<u>\$ 778,107,893</u>	<u>\$ 781,530,074</u>
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.2000	\$ 0.1900	\$ 0.1950	\$ 0.2050
Contract tax rates	0.4600	0.4650	0.5100	0.5400
Road debt service taxes	0.0350	0.0450	0.0500	0.0550
Maintenance tax rates*	<u>0.1429</u>	<u>0.1300</u>	<u>0.1550</u>	<u>0.1600</u>
Total tax rates per \$100 valuation	<u>\$ 0.8379</u>	<u>\$ 0.8300</u>	<u>\$ 0.9100</u>	<u>\$ 0.9600</u>
Tax Levy	<u>\$ 6,581,030</u>	<u>\$ 6,550,327</u>	<u>\$ 7,080,782</u>	<u>\$ 7,502,689</u>
Percent of Taxes Collected to Taxes Levied**				
	<u>98%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

*Maximum tax rate approved by voters: \$1.50 on November 6, 2007

**Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2010		Total
	Principal Due September 1	Interest Due September 1, March 1	
2021	<u>\$ 180,000</u>	<u>\$ 4,140</u>	<u>\$ 184,140</u>

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Road Series 2010		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	<u>\$ 120,000</u>	<u>\$ 2,460</u>	<u>\$ 122,460</u>

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2010A		Total
	Principal Due September 1	Interest Due September 1, March 1	
2021	\$ 75,000	\$ 1,781	\$ 76,781

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2011		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 30,000	\$ 21,785	\$ 51,785
2022	30,000	20,525	50,525
2023	30,000	19,231	49,231
2024	30,000	17,900	47,900
2025	30,000	16,531	46,531
2026	30,000	15,144	45,144
2027	30,000	13,738	43,738
2028	30,000	12,313	42,313
2029	30,000	10,888	40,888
2030	30,000	9,463	39,463
2031	25,000	8,125	33,125
2032	25,000	6,875	31,875
2033	25,000	5,625	30,625
2034	25,000	4,375	29,375
2035	25,000	3,125	28,125
2036	25,000	1,875	26,875
2037	25,000	625	25,625
Totals	<u>\$ 475,000</u>	<u>\$ 188,143</u>	<u>\$ 663,143</u>

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2011A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 125,000	\$ 7,300	\$ 132,300
2022	120,000	2,400	122,400
Totals	\$ 245,000	\$ 9,700	\$ 254,700

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2012		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 90,000	\$ 57,340	\$ 147,340
2022	90,000	54,640	144,640
2023	90,000	51,940	141,940
2024	90,000	49,240	139,240
2025	90,000	46,473	136,473
2026	90,000	43,638	133,638
2027	90,000	40,803	130,803
2028	90,000	37,810	127,810
2029	90,000	34,660	124,660
2030	90,000	31,510	121,510
2031	90,000	28,293	118,293
2032	90,000	25,008	115,008
2033	90,000	21,723	111,723
2034	90,000	18,370	108,370
2035	85,000	15,045	100,045
2036	85,000	11,815	96,815
2037	85,000	8,500	93,500
2038	85,000	5,100	90,100
2039	85,000	1,700	86,700
	<u>\$ 1,685,000</u>	<u>\$ 583,608</u>	<u>\$ 2,268,608</u>

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2012A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 45,000	\$ 4,939	\$ 49,939
2022	45,000	3,645	48,645
2023	45,000	2,251	47,251
2024	45,000	766	45,766
Totals	\$ 180,000	\$ 11,601	\$ 191,601

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Series 2014		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 95,000	\$ 54,875	\$ 149,875
2022	95,000	52,500	147,500
2023	95,000	49,650	144,650
2024	95,000	46,800	141,800
2025	95,000	43,950	138,950
2026	90,000	41,175	131,175
2027	90,000	38,475	128,475
2028	90,000	35,775	125,775
2029	90,000	33,075	123,075
2030	90,000	30,319	120,319
2031	90,000	27,506	117,506
2032	90,000	24,694	114,694
2033	90,000	21,881	111,881
2034	90,000	18,956	108,956
2035	90,000	15,919	105,919
2036	90,000	12,600	102,600
2037	90,000	9,000	99,000
2038	90,000	5,400	95,400
2039	90,000	1,800	91,800
Totals	<u>\$ 1,735,000</u>	<u>\$ 564,350</u>	<u>\$ 2,299,350</u>

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2015		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 205,000	\$ 154,350	\$ 359,350
2022	210,000	149,150	359,150
2023	220,000	142,700	362,700
2024	225,000	134,900	359,900
2025	235,000	125,700	360,700
2026	245,000	116,100	361,100
2027	260,000	106,000	366,000
2028	270,000	95,400	365,400
2029	280,000	84,400	364,400
2030	295,000	72,900	367,900
2031	310,000	60,800	370,800
2032	320,000	48,200	368,200
2033	330,000	35,200	365,200
2034	350,000	21,600	371,600
2035	365,000	7,300	372,300
Totals	<u>\$ 4,120,000</u>	<u>\$ 1,354,700</u>	<u>\$ 5,474,700</u>

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2016		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 50,000	\$ 241,300	\$ 291,300
2022	315,000	237,650	552,650
2023	325,000	231,250	556,250
2024	335,000	222,975	557,975
2025	345,000	211,050	556,050
2026	365,000	196,850	561,850
2027	375,000	182,050	557,050
2028	395,000	166,650	561,650
2029	410,000	150,550	560,550
2030	435,000	133,650	568,650
2031	450,000	115,950	565,950
2032	470,000	97,550	567,550
2033	490,000	78,350	568,350
2034	515,000	58,250	573,250
2035	535,000	37,250	572,250
2036	550,000	15,550	565,550
2037	140,000	2,275	142,275
Totals	<u>\$ 6,500,000</u>	<u>\$ 2,379,150</u>	<u>\$ 8,879,150</u>

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Road Refunding Series 2017		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 85,000	\$ 162,825	\$ 247,825
2022	215,000	158,325	373,325
2023	220,000	151,800	371,800
2024	235,000	144,975	379,975
2025	235,000	137,925	372,925
2026	245,000	129,500	374,500
2027	260,000	119,400	379,400
2028	280,000	108,600	388,600
2029	285,000	97,300	382,300
2030	300,000	85,600	385,600
2031	320,000	73,200	393,200
2032	335,000	60,100	395,100
2033	345,000	46,500	391,500
2034	365,000	32,300	397,300
2035	380,000	17,400	397,400
2036	245,000	4,900	249,900
Totals	<u>\$ 4,350,000</u>	<u>\$ 1,530,650</u>	<u>\$ 5,880,650</u>

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Refunding Series 2019		
	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 15,000	\$ 70,725	\$ 85,725
2022	15,000	70,275	85,275
2023	135,000	68,025	203,025
2024	130,000	64,050	194,050
2025	175,000	59,475	234,475
2026	175,000	54,225	229,225
2027	175,000	48,975	223,975
2028	170,000	44,437	214,437
2029	170,000	40,613	210,613
2030	165,000	36,225	201,225
2031	165,000	31,275	196,275
2032	160,000	26,400	186,400
2033	160,000	21,600	181,600
2034	155,000	16,875	171,875
2035	150,000	12,300	162,300
2036	145,000	7,875	152,875
2037	145,000	3,525	148,525
2038	25,000	975	25,975
2039	20,000	300	20,300
Totals	<u>\$ 2,450,000</u>	<u>\$ 678,150</u>	<u>\$ 3,128,150</u>

Cinco Southwest Municipal Utility District No. 4
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2020

Due During Fiscal Years Ending May 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	\$ 1,115,000	\$ 783,820	\$ 1,898,820
2022	1,135,000	749,110	1,884,110
2023	1,160,000	716,847	1,876,847
2024	1,185,000	681,606	1,866,606
2025	1,205,000	641,104	1,846,104
2026	1,240,000	596,632	1,836,632
2027	1,280,000	549,441	1,829,441
2028	1,325,000	500,985	1,825,985
2029	1,355,000	451,486	1,806,486
2030	1,405,000	399,667	1,804,667
2031	1,450,000	345,149	1,795,149
2032	1,490,000	288,827	1,778,827
2033	1,530,000	230,879	1,760,879
2034	1,590,000	170,726	1,760,726
2035	1,630,000	108,339	1,738,339
2036	1,140,000	54,615	1,194,615
2037	485,000	23,925	508,925
2038	200,000	11,475	211,475
2039	195,000	3,800	198,800
Totals	<u>\$ 22,115,000</u>	<u>\$ 7,308,433</u>	<u>\$ 29,423,433</u>

Cinco Southwest Municipal Utility District No. 4

Changes in Long-term Bonded Debt

Year Ended May 31, 2020

	Bond					
	Series 2009	Road Series 2009	Series 2010	Road Series 2010	Series 2010A	Series 2011
Interest rates	5.250% to 5.625%	4.375% to 4.625%	4.60%	4.10%	4.75%	3.75% to 5.00%
Dates interest payable	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1
Maturity dates			September 1, 2020	September 1, 2020	September 1, 2020	September 1, 2020/2036
Bonds outstanding, beginning of current year	\$ 145,000	\$ 55,000	\$ 350,000	\$ 235,000	\$ 150,000	\$ 505,000
Bonds sold during current year	-	-	-	-	-	-
Bonds refunded during the current year	-	-	-	-	-	-
Retirements, principal	<u>145,000</u>	<u>55,000</u>	<u>170,000</u>	<u>115,000</u>	<u>75,000</u>	<u>30,000</u>
Bonds outstanding, end of current year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 180,000</u>	<u>\$ 120,000</u>	<u>\$ 75,000</u>	<u>\$ 475,000</u>
Interest paid during current year	<u>\$ 4,078</u>	<u>\$ 1,272</u>	<u>\$ 12,020</u>	<u>\$ 7,220</u>	<u>\$ 5,344</u>	<u>\$ 23,008</u>

Paying agent's name and address:

Series 2009	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Road Series 2009	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2010	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Road Series 2010	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2010A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2011	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2011A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012A	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2014	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2015	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2016	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Road Series 2017	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2019	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax and Refunding Bonds	Road and Refunding Bonds	Park and Refunding Bonds
Amount authorized by voters	<u>\$105,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 25,000,000</u>
Amount issued	<u>\$ 17,085,000</u>	<u>\$ 5,820,000</u>	<u>\$ 6,385,000</u>
Remaining to be issued	<u>\$ 87,915,000</u>	<u>\$ 14,180,000</u>	<u>\$ 18,615,000</u>

Debt service fund cash and temporary investment balances as of May 31, 2020:

\$ 4,861,825

Average annual debt service payment (principal and interest) for remaining term of all debt:

\$ 1,548,602

Issues

Series 2011A	Series 2012	Series 2012A	Series 2014	Refunding Series 2015	Refunding Series 2016	Road Refunding Series 2017	Refunding Series 2019	Totals
4.00%	3.00% to 4.00%	2.50% to 3.40%	2.00% to 4.00%	2.00% to 4.00%	2.00% to 4.00%	3.00% to 4.00%	2.25% to 3.00%	
September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	
September 1, 2020/2021	September 1, 2020/2038	September 1, 2020/2023	September 1, 2020/2038	September 1, 2020/2034	September 1, 2020/2036	September 1, 2020/2035	September 1, 2020/2038	
\$ 2,170,000	\$ 1,775,000	\$ 875,000	\$ 1,830,000	\$ 4,170,000	\$ 6,545,000	\$ 4,370,000	\$ -	\$ 23,175,000
-	-	-	-	-	-	-	2,450,000	2,450,000
1,800,000	-	650,000	-	-	-	-	-	2,450,000
125,000	90,000	45,000	95,000	50,000	45,000	20,000	-	1,060,000
<u>\$ 245,000</u>	<u>\$ 1,685,000</u>	<u>\$ 180,000</u>	<u>\$ 1,735,000</u>	<u>\$ 4,120,000</u>	<u>\$ 6,500,000</u>	<u>\$ 4,350,000</u>	<u>\$ 2,450,000</u>	<u>\$ 22,115,000</u>
<u>\$ 12,613</u>	<u>\$ 60,490</u>	<u>\$ 6,121</u>	<u>\$ 56,775</u>	<u>\$ 156,900</u>	<u>\$ 242,250</u>	<u>\$ 164,400</u>	<u>\$ 53,213</u>	<u>\$ 805,704</u>

Cinco Southwest Municipal Utility District No. 4
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended May 31,

	Amounts				
	2020	2019	2018	2017	2016
General Fund					
Revenues					
Property taxes	\$ 1,112,816	\$ 1,021,444	\$ 1,222,806	\$ 1,235,136	\$ 1,165,201
Water service	997,788	971,603	993,415	993,968	954,641
Sewer service	260,340	238,710	271,138	265,166	247,221
Regional water authority	1,318,404	1,116,965	1,042,607	946,853	828,585
Penalty and interest	21,859	17,381	15,688	17,813	21,444
Tap connection and inspection fees	-	-	-	33,135	35,060
Investment income	91,872	118,859	58,799	19,470	6,216
Other income	53,730	5,109	727	990	441
	<u>3,856,809</u>	<u>3,490,071</u>	<u>3,605,180</u>	<u>3,512,531</u>	<u>3,258,809</u>
Total revenues					
Expenditures					
Service operations:					
Purchased services	914,562	914,364	984,456	981,354	943,107
Regional water authority	1,329,963	1,098,802	1,030,514	963,737	837,862
Professional fees	126,278	102,100	95,788	80,555	129,586
Contracted services	239,063	235,563	202,415	166,622	98,821
Solid waste	354,350	338,050	330,732	323,017	316,712
Repairs and maintenance	119,167	317,758	57,480	157,479	202,506
Other expenditures	78,267	68,287	62,744	69,041	67,958
Tap connections	-	-	-	10,840	11,885
Capital outlay	316,124	-	-	-	-
	<u>3,477,774</u>	<u>3,074,924</u>	<u>2,764,129</u>	<u>2,752,645</u>	<u>2,608,437</u>
Total expenditures					
Excess of Revenues Over Expenditures	379,035	415,147	841,051	759,886	650,372
Other Financing Sources (Uses)					
Interfund transfers in (out)	(127,000)	-	-	148,883	-
Excess of Revenues and Transfers In Over Expenditures and Transfers Out					
	252,035	415,147	841,051	908,769	650,372
Fund Balance, Beginning of Year	<u>5,717,899</u>	<u>5,302,752</u>	<u>4,461,701</u>	<u>3,552,932</u>	<u>2,902,560</u>
Fund Balance, End of Year	<u>\$ 5,969,934</u>	<u>\$ 5,717,899</u>	<u>\$ 5,302,752</u>	<u>\$ 4,461,701</u>	<u>\$ 3,552,932</u>
Total Active Retail Water Connections	<u>1,790</u>	<u>1,794</u>	<u>1,794</u>	<u>1,793</u>	<u>1,775</u>
Total Active Retail Wastewater Connections	<u>1,705</u>	<u>1,705</u>	<u>1,705</u>	<u>1,702</u>	<u>1,688</u>

Percent of Fund Total Revenues

2020	2019	2018	2017	2016
28.8 %	29.3 %	33.9 %	35.2 %	35.7 %
25.9	27.8	27.6	28.3	29.3
6.7	6.8	7.5	7.5	7.6
34.2	32.0	28.9	27.0	25.4
0.6	0.5	0.5	0.5	0.7
-	-	-	0.9	1.1
2.4	3.4	1.6	0.6	0.2
1.4	0.2	0.0	0.0	0.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
23.7	26.2	27.3	27.9	28.9
34.5	31.5	28.6	27.4	25.7
3.3	2.9	2.7	2.3	4.0
6.2	6.8	5.6	4.8	3.0
9.2	9.7	9.2	9.2	9.7
3.1	9.1	1.6	4.5	6.2
2.0	2.0	1.7	2.0	2.1
-	-	-	0.3	0.4
8.2	-	-	-	-
<u>90.2</u>	<u>88.2</u>	<u>76.7</u>	<u>78.4</u>	<u>80.0</u>
<u>9.8 %</u>	<u>11.8 %</u>	<u>23.3 %</u>	<u>21.6 %</u>	<u>20.0 %</u>

Cinco Southwest Municipal Utility District No. 4
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended May 31,

	Amounts				
	2020	2019	2018	2017	2016
Debt Service Fund					
Revenues					
Property taxes	\$ 5,415,267	\$ 5,497,755	\$ 5,958,950	\$ 6,183,132	\$ 6,579,377
Penalty and interest	30,872	25,151	56,538	32,308	50,610
Investment income	46,304	70,973	42,598	16,984	7,590
Other income	18,241	8,581	30,012	11,814	19,905
Total revenues	<u>5,510,684</u>	<u>5,602,460</u>	<u>6,088,098</u>	<u>6,244,238</u>	<u>6,657,482</u>
Expenditures					
Current:					
Contracted services	28,360	25,589	25,510	25,092	25,574
Other expenditures	66,485	58,529	84,974	70,121	76,760
Debt service:					
Contractual obligation	3,734,190	3,848,784	4,074,586	4,297,574	4,449,302
Principal retirement	1,060,000	1,020,000	1,060,000	1,010,000	825,000
Interest and fees	812,964	905,116	964,116	876,303	1,165,331
Debt issuance costs	123,500	4,450	-	185,938	419,033
Debt defeasance	157,000	-	-	71,471	-
Total expenditures	<u>5,982,499</u>	<u>5,862,468</u>	<u>6,209,186</u>	<u>6,536,499</u>	<u>6,961,000</u>
Deficiency of Revenues Over Expenditures	<u>(471,815)</u>	<u>(260,008)</u>	<u>(121,088)</u>	<u>(292,261)</u>	<u>(303,518)</u>
Other Financing Sources (Uses)					
Interfund transfers in	127,000	-	-	71,471	-
General obligation bonds issued	2,450,000	-	-	4,475,000	11,055,000
Premium on debt issued	16,206	-	-	179,152	930,759
Deposit with escrow agent	(2,334,092)	-	-	(4,466,001)	(11,560,339)
Total other financing sources	<u>259,114</u>	<u>0</u>	<u>0</u>	<u>259,622</u>	<u>425,420</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(212,701)</u>	<u>(260,008)</u>	<u>(121,088)</u>	<u>(32,639)</u>	<u>121,902</u>
Fund Balance, Beginning of Year	<u>5,034,136</u>	<u>5,294,144</u>	<u>5,415,232</u>	<u>5,447,871</u>	<u>5,325,969</u>
Fund Balance, End of Year	<u>\$ 4,821,435</u>	<u>\$ 5,034,136</u>	<u>\$ 5,294,144</u>	<u>\$ 5,415,232</u>	<u>\$ 5,447,871</u>

Percent of Fund Total Revenues

2020	2019	2018	2017	2016
98.3 %	98.1 %	97.9 %	99.0 %	98.8 %
0.6	0.4	0.9	0.5	0.8
0.8	1.3	0.7	0.3	0.1
0.3	0.2	0.5	0.2	0.3
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.5	0.5	0.4	0.4	0.4
1.2	1.0	1.4	1.1	1.2
67.8	68.7	66.9	68.8	66.8
19.2	18.2	17.4	16.2	12.4
14.8	16.1	15.8	14.0	17.5
2.2	0.1	-	3.0	6.3
2.9	-	-	1.1	-
<u>108.6</u>	<u>104.6</u>	<u>101.9</u>	<u>104.6</u>	<u>104.6</u>
<u>(8.6) %</u>	<u>(4.6) %</u>	<u>(1.9) %</u>	<u>(4.6) %</u>	<u>(4.6) %</u>

Cinco Southwest Municipal Utility District No. 4
Board Members, Key Personnel and Consultants
Year Ended May 31, 2020

Complete District mailing address:	Cinco Southwest Municipal Utility District No. 4 Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	May 4, 2020
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Kerry Crellin	Elected 05/18- 05/22	\$ 6,600	\$ 2,877	President
Michael Riel	Appointed 04/18- 05/22	2,700	904	Vice President
Lisa Bonham	Elected 05/20- 05/24	1,650	189	Secretary
Gerald Reuter	Elected 05/20- 05/24	900	0	Assistant Vice President
Ronald Stefani	Appointed 03/20- 05/22	300	0	Assistant Secretary

*Fees are the amounts actually paid to a director during the District's fiscal year.

Cinco Southwest Municipal Utility District No. 4
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2020

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Kathy Miller	Appointed 09/17- 08/19	450	157	Resigned
Norman Reed	Elected 05/16- 09/19	750	139	Resigned
Vince Smith	Elected 05/18- 03/20	4,200	289	Resigned

*Fees are the amounts actually paid to a director during the District's fiscal year.

Cinco Southwest Municipal Utility District No. 4
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2020

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	05/10/07	\$ 90,780 40,008	General Counsel Bond Counsel
BGE, Inc.	09/27/12	14,632	Engineer
BKD, LLP	05/08/08	19,100	Auditor
District Data Services, Inc.	05/10/07	12,885	Bookkeeper
Fort Bend Central Appraisal District	Legislative Action	48,658	Appraiser
Inframark, LLC	05/10/07	547,977	Operator
Masterson Advisors LLC	05/22/18	27,400	Financial Advisor
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/05/08	9,531	Delinquent Tax Attorney
Utility Tax Service, LLC	05/10/07	38,255	Tax Assessor/ Collector
Investment Officer			
Wendy Austin	05/10/07	N/A	Bookkeeper

APPENDIX C

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