OFFICIAL STATEMENT DATED OCTOBER 18, 2021

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

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

BOOK-ENTRY-ONLY

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

$4,245,000
FALLBROOK UTILITY DISTRICT
(A political subdivision of the State of Texas located within Harris County)
WATERWORKS AND SEWER SYSTEM COMBINATION UNLIMITED TAX AND REVENUE BONDS, SERIES 2021

Dated: November 1, 2021 **Due: March 1, as shown below**
Interest Accrual Date: Date of Delivery

Principal of the bonds described above (the "Bonds") will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Co., N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from the initial date of delivery (expected to be November 18, 2021) (the "Date of Delivery") and will be payable on March 1 and September 1 of each year commencing March 1, 2022 until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only in denominations of $5,000 each or integral multiples thereof. The Bonds will be subject to redemption prior to their maturity, as shown below.

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

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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

$535,000 Term Bonds due March 1, 2035 (b), 306482 HA1 (c), 2.000% Interest Rate, 2.10% Yield (a)
$555,000 Term Bonds due March 1, 2037 (b), 306482 HC7 (c), 2.000% Interest Rate, 2.20% Yield (a)
$585,000 Term Bonds due March 1, 2039 (b), 306482 HE3 (c), 2.250% Interest Rate, 2.30% Yield (a)
$605,000 Term Bonds due March 1, 2041 (b), 306482 HG8 (c), 2.375% Interest Rate, 2.40% Yield (a)
$1,965,000 Term Bonds due March 1, 2047 (b), 306482 HN3 (c), 2.625% Interest Rate, 2.70% Yield (a)

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

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

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about November 18, 2021.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas, 77056 upon payment of the costs of duplication.

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

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

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

OFFICIAL STATEMENT SUMMARY

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

INFECTIOUS DISEASE OUTLOOK (COVID-19)

General… 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.

Impact… 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. 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 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. A significant percentage of the taxable value in the District results from the current market value of commercial retailers in the District whose businesses are largely dependent on in-person transactions. Therefore, continued business operations at these retailers may be particularly impacted by the challenges posed by the COVID-19 pandemic. In February 2021, Fry's Electronics, Inc., the seventh largest taxpayer in the District, announced the closure of all of its locations, including the one in the District, due in part, to the challenges posed by the Pandemic. The District is not currently aware of any 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 "Dependence on Principal Taxpayers" below. See "INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19)" and "—Dependence on Principal Taxpayers."

THE DISTRICT

Description... Fallbrook Utility District (the "District") is a political subdivision of the State of Texas located in Harris County approximately 11 miles north of the central business district of the City of Houston. The District was created by Acts of the 61st Legislature of the State of Texas, Regular Session, 1969, and operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended. The District consists of approximately 582 acres of land. See "THE DISTRICT."

Status of Development... Development of land in the District began in the 1970s. Single family residential development including some duplexes consists of Fallbrook, Sections 1 through 3, Ridgepoint, Section 1, and Westpointe Estates, Section 1, which encompasses approximately 389 acres developed into 1,849 lots. Waterside Court, a townhome community consisting of 118 lots developed on approximately 14 acres, is exempt from taxation by the District; however, such property is subject to an annual charge in lieu of taxes pursuant to an agreement between the District, Waterside Court, Ltd, and Harris County Housing Authority. The average value of the homes in the District is approximately $125,000 for the 2021 tax year. As of August 16, 2021, the District contained 1,812 completed and occupied single family homes and 37 completed and unoccupied single family residential homes. There is currently no active residential development activity in the District.

Multifamily development in the District includes Fallbrook Ranch, an apartment community containing 196 apartment units on approximately 14 acres. According to property management, Fallbrook Ranch is currently 95% occupied. The District also has approximately 47 commercial connections developed on approximately 95 acres. Commercial users in the District include West Road Plaza, which includes Ross, Marshalls, the Dump, Payless Shoe Store, Pep Boys, Petco, a Sprint Store, Sketchers Shoes, Dollar Tree, Party City, a Cash Advance business, a Wells Fargo Bank and three fast food restaurants. Other commercial users in the District include an automotive sales and repair center, a washateria, dry cleaners, two gas stations with convenience stores, a nursing home facility, and other various retail and service establishments.

The District also contains approximately 61 acres of land in detention basins, easements, plant sites and rights-of-way and approximately 9 acres of developable but undeveloped land on which improvements have not been constructed. The undeveloped acreage is owned by multiple parties, none of which has reported development plans to the District. See “THE DISTRICT—Status of Development.”

Extreme Weather Events… The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced multiple storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to Water Wastewater Management Services, Inc., (the “Operator”) and BGE, Inc. (the “Engineer”), the District’s System (as defined herein) did not sustain any material damage and there was no interruption of water and sewer service. However, the District did receive reports that approximately 200-400 homes within the District sustained varied amounts of flooding as a result of Hurricane Harvey.

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

THE FINANCING

The Issue…	The $4,245,000 Fallbrook Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2021, are dated November 1, 2021. The Bonds will mature as term bonds on March 1 in each of the years 2035, 2037, 2039, 2041, and 2047, in the respective amounts and bearing interest at the rates for each maturity shown on the cover page hereof. Interest on the Bonds will accrue from the Date of Delivery and will be payable March 1 and September 1 of each year commencing March 1, 2022 (four months interest) until maturity or prior redemption and will be calculated on the basis of 360-day year consisting of twelve 30-day months. The Bonds are subject to optional redemption, in whole or, from time to time, in part, on March 1, 2027, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. The Bonds are also subject to mandatory sinking fund redemption as more fully described herein If fewer than all the Bonds are redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be selected by the District in integral multiples of $5,000 in any one maturity. If fewer than all the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY-ONLY SYSTEM." The Bonds will be issued in fully registered form only, in denominations of $5,000 or any integral multiple thereof. See "THE BONDS."
Book-Entry-Only…	The Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC, which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "BOOK-ENTRY- ONLY SYSTEM."
Authority for Issuance..	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 51 of the Texas Water Code, as amended, the general laws of the State of Texas, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"), an order of the Texas Commission on Environmental Quality (the "TCEQ" or "Commission") and elections held within the District. See "THE BONDS—Authority for Issuance."
Source of Payment…	The Bonds are payable from a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District and further from a pledge of and lien on the net revenues, if any, of the District's water and wastewater system, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. See "THE BONDS—Source and Security for Payment."
Use of Proceeds…	Proceeds from the Bonds will be used to fund: (1) a generator replacement and rehabilitation at Water Plant No. 1; (2) rehabilitation at Water Plant No. 2; (3) a generator replacement and inspection and maintenance at the Wastewater Treatment Plant; and (4) contingencies, engineering, geotechnical and materials testing. In addition, Bond proceeds will be used to capitalize twelve (12) months of interest on the Bonds and to pay engineering fees and administrative costs and certain other costs related to the issuance of the Bonds. See "THE SYSTEM—Use and Distribution of Bond Proceeds."
Payment Record…	The District has previously issued nine series of waterworks and sewer system combination unlimited tax and revenue bonds and two series of waterworks and sewer system combination unlimited tax and revenue refunding bonds (collectively, the "Previously Issued Bonds"), of which $4,155,000 principal amount of such Previously Issued Bonds is currently outstanding (the "Outstanding Bonds"). See "INVESTMENT CONSIDERATIONS—Future Debt." The District has timely paid its debt service on the Previously Issued Bonds. The District will capitalize twelve (12) months of interest from the Bond proceeds.
Qualified Tax-Exempt Obligations …	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See "LEGAL MATTERS—Qualified Tax-Exempt Obligations."

Municipal Bond Insurance and 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 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"). S&P has assigned an underlying credit rating of "A" on the Bonds. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND RATING," "MUNICIPAL BOND INSURANCE," and APPENDIX B.

Bond Counsel … Schwartz, Page & Harding, L.L.P., Houston, Texas.

Disclosure Counsel… McCall, Parkhurst & Horton L.L.P, Houston, Texas.

Financial Advisor… Masterson Advisors LLC, Houston, Texas.

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

INVESTMENT CONSIDERATIONS

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

FINANCIAL INFORMATION (UNAUDITED)

2021 Taxable Assessed Valuation	$302,671,372	(a)
Gross Direct Debt Outstanding	$8,400,000	(b)
Estimated Overlapping Debt	13,972,136	(c)
Total Gross Direct Debt and Estimated Overlapping Debt	$22,372,136	
Ratio of Gross Direct Debt to: 2021 Taxable Assessed Valuation	2.78%	
Ratio of Gross Direct and Estimated Overlapping Debt to: 2021 Taxable Assessed Valuation	7.39%	
Operating Funds Available as of September 20, 2021	$7,957,489	
Debt Service Funds Available as of September 20, 2021	$291,573	(d)
Capitalized Interest from proceeds of the Bonds (Twelve (12) months)	$100,913	(e)
Total Funds Available for Debt Service	$392,486	
2021 Debt Service Tax Rate	$0.175	
2021 Maintenance Tax Rate	0.073	
Total	$0.248	
Average Annual Debt Service Requirement (2022-2047)	$421,366	(f)
Maximum Annual Debt Service Requirement (2028)	$525,763	(f)
Tax Rate Required to Pay Average Annual Debt Service (2022-2047) at a 95% Collection Rate Based upon 2021 Taxable Assessed Valuation	$0.15	
Tax Rate Required to Pay Maximum Annual Debt Service (2028) at a 95% Collection Rate Based upon 2021 Taxable Assessed Valuation	$0.19	
Status of Development as of August 16, 2021 (g):		
Completed Homes (1,812 occupied)	1,849	
Townhomes (118 units)	1	
Multifamily (196 units)	1	
Commercial	47	
Estimated Population	6,970	(h)

(a) According to the Appraisal District, the Estimated Final Taxable Value of the properties remaining uncertified totals $54,176,286. The above total represents the certified value plus the Appraisal District's estimate of the uncertified value after protests. See "TAX PROCEDURES."
(b) After giving effect to issuance of the Bonds. See "FINANCIAL STATEMENT—Outstanding Bonds."
(c) See "ESTIMATED OVERLAPPING DEBT" and "—Overlapping Taxes."
(d) Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Bond Fund.
(e) The District will capitalize twelve (12) months of interest each on the Bonds. See "THE BONDS—Funds" and "THE SYSTEM—Use and Distribution of Bond Proceeds."
(f) See "DEBT SERVICE REQUIREMENTS."
(g) See "THE DISTRICT—Status of Development."
(h) Based upon 3.5 persons per occupied single-family residence and 2 persons per apartment unit.

OFFICIAL STATEMENT

$4,245,000
FALLBROOK UTILITY DISTRICT

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

WATERWORKS AND SEWER SYSTEM
COMBINATION UNLIMITED TAX AND REVENUE BONDS,
SERIES 2021

This Official Statement provides certain information in connection with the issuance by Fallbrook Utility District (the "District") of its $4,245,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2021 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 51 of the Texas Water Code, as amended, the general laws of the State of Texas, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"), an order of the Texas Commission on Environmental Quality (the "TCEQ" or "Commission") and elections held within the District.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056, upon payment of duplication costs therefor.

THE BONDS

General

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

Description

The Bonds will be dated November 1, 2021, with interest payable on March 1, 2022, and on each March 1 and September 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from the Date of Delivery, and thereafter, from the most recent Interest Payment Date. The Bonds mature on March 1 of the years and in the amounts shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of $5,000 or any integral multiple of $5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At an election held within the District on May 9, 2009, voters of the District authorized a total of $9,000,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The Bonds constitute the third issuance of bonds from such authorization. After the issuance of the Bonds, no principal amount of waterworks and sewer system combination unlimited tax and revenue bonds for water, sanitary sewer and drainage facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 51 of the Texas Water Code, as amended; and an order of the Commission dated September 30, 2021.

Source and Security for Payment

The Bonds, together with the Outstanding Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See "TAX PROCEDURES." The Bonds are additionally payable from and secured by a pledge of and lien on the Net Revenues (as defined in the Bond Order), if any, derived by the District from the operation of the District's System (as herein defined) to the extent and upon the conditions described more fully in the Bond Order. It is not expected that any significant Net Revenues will be available for the payment of debt service on any of the District's bonds. Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any political subdivision or entity other than the District.

Funds

The Bond Order confirms the establishment of the District's Construction Fund and the District's Bond Fund (the "Bond Fund") created and established pursuant to the orders of the District authorizing the issuance of the Outstanding Bonds. An amount equal to twelve (12) months of capitalized interest will be deposited from the proceeds from sale of the Bonds into the Bond Fund. All remaining proceeds of the Bonds will be deposited in the Construction Fund. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Outstanding Bonds, the Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Outstanding Bonds, the Bonds and any of the District's duly authorized additional bonds payable in whole or part from taxes. Amounts on deposit in the Bond Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Outstanding Bonds, the Bonds and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Record Date

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

Redemption Provisions

Mandatory Redemption: The Bonds are issued as term bonds maturing on March 1 in each of the years 2035, 2037, 2039, 2041, and 2047 and shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on March 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):

$535,000 Term Bonds Due March 1, 2035		$555,000 Term Bonds Due March 1, 2037		$585,000 Term Bonds Due March 1, 2039	
Mandatory Redemption Date	**Principal Amount**	**Mandatory Redemption Date**	**Principal Amount**	**Mandatory Redemption Date**	**Principal Amount**
2034	$ 265,000	2036	$ 275,000	2038	$ 290,000
2035 (maturity)	270,000	2037 (maturity)	280,000	2039 (maturity)	295,000

$605,000 Term Bonds Due March 1, 2041		$1,965,000 Term Bonds Due March 1, 2047	
Mandatory Redemption Date	**Principal Amount**	**Mandatory Redemption Date**	**Principal Amount**
2040	$ 300,000	2042	$ 310,000
2041 (maturity)	305,000	2043	320,000
		2044	325,000
		2045	330,000
		2046	335,000
		2047 (maturity)	345,000

Notice of the mandatory redemption of the Bonds will be provided at least thirty (30) calendar days prior to the date fixed for redemption, with the particular portions of such Bonds to be redeemed to be selected by lot or other customary method in accordance with the procedures of DTC so long as the Bonds are registered in accordance with the Book-Entry-Only System. See "THE BONDS—Book-Entry-Only System."

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

Effects of Redemption: 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 within any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Dallas, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

Registration

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

Replacement of Paying Agent/Registrar

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of $20,000,000 waterworks and sewer system combination unlimited tax and revenue bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have no waterworks and sewer system combination unlimited tax and revenue bonds authorized but unissued for said improvements and facilities. The Board adopted an order on July 19, 2021, calling a bond election to be held on November 2, 2021, for the purpose of submitting the propositions to the District's voters for the authorization to issue $57,800,000 in principal amount of unlimited tax bonds for acquiring or constructing water, sanitary sewer and drainage facilities, authorization to issue $57,800,000 in principal amount of unlimited tax refunding bonds, and authorization to levy a maintenance tax in an amount not to exceed $1.00 per $100 of assessed valuation.

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

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

Financing Road Facilities

Pursuant to Chapter 51 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for "road powers" or calling such an election at this time. Issuance of bonds for roads could dilute the investment security for the Bonds.

Financing Recreational Facilities

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

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or in the event the District meets certain conditions, 3% of the value of the taxable property in the District at the time of the issuance of the bonds, but in no event an amount greater than the estimated cost in the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the Commission in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per $100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

The District has not considered calling an election for such purposes but could consider doing so in the future. Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City of Houston hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever attempt to annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur. Under the terms of the SPA (as hereinafter defined under "THE DISTRICT—Strategic Partnership Agreement") between the District and the City of Houston, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. See "THE DISTRICT—Strategic Partnership Agreement." The District could consent to a full purpose annexation prior to that time by agreeing to amend the SPA to such effect, however, the District currently has no intention to do so.

Consolidation

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

Remedies in Event of Default

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

The Depository Trust Company ("DTC"), New York, 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 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, a division of S&P Global, Inc. 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. Payment of redemption proceeds, distributions, and dividend 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 Initial Purchasers take any responsibility for the accuracy thereof.

THE DISTRICT

General

The District is a political subdivision created by an act of the 61st Texas Legislature, Regular Session, 1969, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 51 of the Texas Water Code, as amended, and other general statutes of Texas applicable to water control and improvement districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the TCEQ.

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

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

Status of Development

The District was created on June 11, 1969 and encompasses approximately 582 acres of land. The District is bounded by Veteran's Memorial Drive west and Interstate Highway 45 on the east and is bisected by West Road. Ella Boulevard, a major thoroughfare, passes through the entire District running north and south.

Development of land in the District began in the 1970s. Single family residential development (including some duplexes) consists of Fallbrook, Sections 1 through 3, Ridgepoint, Section 1 and Westpointe Estates, Section 1, which encompasses approximately 389 acres developed into 1,849 lots. Waterside Court, a townhome community consisting of 118 lots developed on approximately 14 acres, is exempt from taxation by the District; however, such property is subject to an annual charge in lieu of taxes pursuant to an agreement between the District, Waterside Court, Ltd, and Harris County Housing Authority. The average value of the homes in the District is approximately $125,000 based on the tax rolls of the District for the 2021 tax year. As of August 16, 2021, the District contained 1,812 completed and occupied single family homes and 37 completed and unoccupied single family residential homes. There is currently no active residential development activity in the District.

Multifamily development in the District includes Fallbrook Ranch, an apartment community containing 196 apartment units on approximately 14 acres. According to property management, Fallbrook Ranch is currently 95% occupied. The District also has approximately 47 commercial connections developed on approximately 95 acres. Commercial users in the District include West Road Plaza, which includes Ross, Marshalls, the Dump, Payless Shoe Store, Pep Boys, Petco, a Sprint Store, Sketchers Shoes, Dollar Tree, Party City, a Cash Advance business, a Wells Fargo Bank and three fast food restaurants. Other commercial users in the District include an automotive sales and repair center, a washateria, dry cleaners, two gas stations with convenience stores, a nursing home facility, and other various retail and service establishments.

The District also contains 61 acres of land in detention basins, easements, plant sites and rights-of-way, and 9 acres of developable but undeveloped land on which improvements have not been constructed. The undeveloped acreage is owned by multiple parties, none of which has reported development plans to the District.

Strategic Partnership Agreement

The District and the City of Houston (the "City") entered into a Strategic Partnership Agreement originally dated effective June 25, 2004, which was superseded and replaced by an Amended and Restated Strategic Partnership Agreement dated effective December 15, 2011 (the "SPA"), pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a limited purpose annexation for that portion of the District which is developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for full purposes for at least thirty (30) years from the effective date of the SPA. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater and drainage facilities must be assumed by the City to the maximum extent permitted by TCEQ rules.

As of the effective date of the SPA, the City was authorized to impose the one percent (1%) City sales and use tax within the portion of the District included in the limited purpose annexation. Such portion includes primarily the approximately 46 acres of commercial development within the District. The City pays to the District an amount equal to one half (1/2) of all sales and use tax revenue generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (the "Sales Tax Revenue"). Pursuant to State law, the District is authorized to use Sales Tax Revenue generated under the SPA for any lawful purpose. None of the anticipated Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds or the Outstanding Bonds.

MANAGEMENT OF THE DISTRICT

Board of Directors

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

Name	Title	Term Expires
Linda Watkins	President	May 2022
James McClure	Vice President	May 2024
Joyce King	Secretary	May 2022
Gilbert Miranda, Jr.	Asst. Secretary	May 2024
Annie Freeman	Asst. Secretary	May 2022

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

Bond Counsel and General Counsel: Schwartz, Page & Harding, L.L.P. ("Bond Counsel") serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

Disclosure Counsel: The District has engaged McCall, Parkhurst & Horton L.L.P. as disclosure counsel ("Disclosure Counsel"). The fees paid to Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

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

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the Commission. The District's financial statements for the fiscal year ending September 30, 2020, have been audited by the independent accounting firm of McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. The District has engaged McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants to audit its financial statements for the fiscal year ending September 30, 2021. See "APPENDIX A" for a copy of the District's audited financial statements.

Engineer: The District's consulting engineer is BGE, Inc. (the "Engineer").

Bookkeeper: The District has contracted with District Data Services, Inc.. (the "Bookkeeper") for bookkeeping services.

Utility System Operator: The operator of the District's water supply and sewage collection and treatment facilities is Water Wastewater Management Services, Inc. (the "Operator").

Tax Appraisal: The Harris County Appraisal District has the responsibility of appraising all property within the District. See "TAX PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Assessments of the Southwest, Inc. (the "Tax Assessor/Collector") has been engaged by the District to serve in this capacity.

THE SYSTEM

Regulation

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

Water Supply

The District owns and operates two water supply plants. Water Plant No. 1 has a 1,200 gallon per minute ("gpm") capacity well and pump, a 420,000 gallon capacity ground storage tank, two 10,000 gallon pressure tanks, 3,600 gpm of booster pump capacity and related appurtenances, including an emergency generator. Water Plant No. 2 has a 1,240 gpm capacity well and pump, a 400,000 gallon capacity ground storage tank, 2,500 gpm of booster pump capacity, two 15,000 gallon pressure tanks and related appurtenances, including an emergency generator. According to BGE, Inc., the District's consulting engineer (the "Engineer"), the District's water supply facilities will have adequate capacity to serve the District at full development. A portion of Bond proceeds will be used to finance a generator replacement at Water Plant No. 1 and rehabilitation projects at Water Plant No. 1 and No. 2. See "Use and Distribution of Bond Proceeds" herein. The District also has an interconnect agreement with Harris County Municipal Utility District No. 11 and Harris County Municipal Utility District No. 321 (now the City of Houston) for emergency uses.

Subsidence District Requirements

The Harris-Galveston Subsidence District (the "Subsidence District") was created by the Texas Legislature to reduce subsidence by regulating the withdrawal of groundwater within Harris and Galveston Counties. In 1999, the Subsidence District adopted its District Regulatory Plan ("Regulatory Plan") to control groundwater withdrawals. The Regulatory Plan divides the Subsidence District's jurisdiction into regulatory areas. The Subsidence District's Regulatory Area 3 ("Area 3") generally encompasses northwest and western Harris County, including the District. Pursuant to the Regulatory Plan, specific major water users, including those in Area 3, must reduce and maintain groundwater withdrawals to no more than 70% by January 2010, to no more than 40% by January 2025 and to no more than 20% by January 2035.

The District is a member of the Central Harris County Regional Water Authority (the "Authority"). The Authority was created by the Texas Legislature to provide surface water to its customers, to develop a regional groundwater reduction plan, to construct regional infrastructure to effect the groundwater reduction plan, to coordinate construction financing, and to operate the regional infrastructure. The Authority's jurisdiction encompasses portions of Area 3, including the District. The Authority has prepared a regional groundwater reduction plan (the "GRP") on behalf of its members, including the District, to meet the Regulatory Plan requirements, which GRP has been approved by the Subsidence District. The Authority has also entered into a contract with the City of Houston to purchase surface water. In addition, the Authority has developed financing strategies to begin funding the capital and operating costs for the Authority's construction and ownership of a system of surface water supply trunklines to deliver surface water. The Authority charges its members fees to fund these financing, capital and operating costs ("GRP Fee"). Effective March 1, 2018, the GRP Fee charged by the Authority is $3.01 per 1,000 gallons of water pumped from the District's wells.

The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates the need to pass such fees through to its customers in higher water and sewer rates. In addition, conversion to surface water could necessitate improvements to the District's water supply system which could require issuance of additional bonds. In the event the Authority fails to reduce groundwater withdrawal to the levels specified in the Regulatory Plan by the deadlines established by the Subsidence District, then the District and others within the Authority's GRP group will be required to pay a disincentive fee on withdrawn groundwater. This fee is expected to be substantial and the District expects it would need to pass such fee through to its customers in higher water and sewer rates or with portions of its maintenance tax proceeds. This fee would be in addition to the Authority's fee.

Wastewater Treatment

The District owns and operates a wastewater treatment plant with a current capacity of 1.3 million gallons per day. The Engineer has stated that this capacity will be sufficient to service the District at full development. A portion of Bond proceeds will be used to finance a generator replacement and rehabilitation projects at the plant. See "Use and Distribution of Bond Proceeds" herein.

100-Year Flood Plain

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

According to the Engineer, approximately 3 acres of developed commercial land in the District are within the 100-year flood plain. See "INVESTMENT CONSIDERATIONS—Extreme Weather Events."

Use and Distribution of Bond Proceeds

Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and Financial Advisor. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District's auditor.

Proceeds from the sale of the Bonds will be used to fund: (1) a generator replacement and rehabilitation at Water Plant No. 1; (2) rehabilitation at Water Plant No. 2; (3) a generator replacement and inspection and maintenance at the Wastewater Treatment Plant; and (4) contingencies, engineering, geotechnical and materials testing. Bond proceeds will also be used to pay certain costs associated with the issuance of the Bonds.

CONSTRUCTION RELATED COSTS		
Construction Costs Approved by the TCEQ	$	3,651,725
Total Construction Related Costs	**$**	**3,651,725**
NON-CONSTRUCTION COSTS		
Underwriter's Discount (a)	$	120,998
Capitalized Interest (12 months)		100,913
Contingency (a)		75,240
Total Non-Construction Related Costs	**$**	**297,150**
ISSUANCE COSTS AND FEES		
Issuance Costs and Professional Fees	$	241,267
Bond Application Report Costs		40,000
State Regulatory Fees		14,858
Total Issuance Costs and Fees	**$**	**296,125**
TOTAL BOND ISSUE	**$**	**4,245,000**

(a) Contingency represents the difference in the estimated and actual underwriter's discount and capitalized interest.

In the instance that Commission-approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved under the rules of the Commission. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional Commission approval and the issuance of additional bonds may be required.

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

Date of Authorization	Purpose	Amount Authorized	Issued to Date	Amount Unissued
08/16/69, 11/1/69, 12/19/81 06/27/87 & 05/09/09	Water, Sanitary Sewer and Drainage	$20,000,000	$20,000,000*	$-0-

* Includes the Bonds. See "THE BONDS—Issuance of Additional Debt," and "INVESTMENT CONSIDERATIONS—Future Debt."

FINANCIAL STATEMENT

2021 Taxable Assessed Valuation	$302,671,372	(a)
District Debt:		
Outstanding Bonds (as of September 1, 2021)	$4,155,000	
Plus: The Bonds	4,245,000	
Gross Debt Outstanding (after issuance of the Bonds)	$8,400,000	(b)
Ratio of Gross Direct Debt to: 2021 Taxable Assessed Valuation	2.78%	

Area of District—582 acres
2021 Population—6,970 (c)

(a) According to the Appraisal District, the Estimated Final Taxable Value of the properties remaining uncertified totals $54,176,286. The above total represents the certified value plus the Appraisal District's estimate of the uncertified value after protests. See "TAX PROCEDURES."
(b) After issuance of the Bonds. See "Outstanding Bonds" herein.
(c) Based upon 3.5 persons per occupied single-family residence and 2 persons per multi-family residence and townhome.

Cash and Investment Balances

Operating Funds Available as of September 20, 2021	$7,957,489	
Debt Service Funds Available as of September 20, 2021	$291,573	(a)
Capitalized Interest from proceeds of the Bonds (Twelve (12) months)	100,913	(b)
Total Funds Available for Debt Service	$392,486	

(a) Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.
(b) The District will capitalize twelve (12) months of interest each on the Bonds. See "THE BONDS—Funds" and "THE SYSTEM—Use and Distribution of Bond Proceeds."

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield 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 recognized rating service. The District does not currently own, nor does it anticipate owning, long term securities or derivative products in the District's investment portfolio.

Outstanding Bonds

The following table lists the original principal amounts of the Outstanding Bonds and the principal amount of the Outstanding Bonds as of September 1, 2021.

Series	Original Principal Amount	Outstanding Bonds
2013	$ 2,200,000	$ 75,000
2020 (a)	4,340,000	4,080,000
Total		$ 4,155,000

(b) Refunding Bonds.

ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping Percent	Overlapping Amount
Harris County……………………………………	$ 1,672,657,125	7/31/2021	0.06%	$ 1,003,594
Harris County Flood Control District……………	334,270,000	7/31/2021	0.06%	200,562
Harris County Hospital District…………………	81,540,000	7/31/2021	0.06%	48,924
Harris County Department of Education………	20,185,000	7/31/2021	0.06%	12,111
Port of Houston Authority………………………	492,439,397	7/31/2021	0.06%	295,464
Aldine Independent School District……………	995,125,000	7/31/2021	1.17%	11,642,963
Lone Star College District………………………	614,815,000	7/31/2021	0.13%	768,519
Total Estimated Overlapping Debt………………				$ 13,972,136
The District………………………………………	8,400,000 (a)	Current	100.00%	8,400,000
Total Direct and Estimated Overlapping Debt…..				$ 22,372,136

Ratio of Estimated Direct and Overlapping Debt to 2021 Taxable Assessed Valuation……………………………… 7.39%

(a) Includes the Bonds and the Outstanding Bonds.

Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. 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 the District, having the power to tax the property. The District'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 the District and other taxing authorities, certain taxing jurisdictions, including the District, 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 are the taxes levied for the 2020 tax year by all of the taxing jurisdictions overlapping the District and the District. 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.

	2020 Tax Rate per $100 of Taxable Assessed Valuation
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority)……………………	$ 0.604193
Aldine Independent School District………………………………………	1.274400
Lone Star College System………………………………………………	0.107800
Harris County ESD No. 17………………………………………………	0.099044
Harris County ESD No. 1………………………………………………	0.097210
Total Overlapping Tax Rate……………………………………………	$ 2.182647
The District (a) ……………………………………………………	0.248000
Total Tax Rate……………………………………………………	$ 2.430647

(a) The District has levied a total tax rate of $0.248 per $100 assessed valuation for the 2021 tax year.

TAX DATA

Historical Tax Collections

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

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of August 31, 2021 (a) Amount	Percent
2016	$ 212,888,413	$ 0.310	$ 659,954	$ 656,863	99.53%
2017	233,708,028	0.280	654,382	651,760	99.60%
2018	247,260,126	0.280	692,328	687,623	99.32%
2019	260,455,655	0.285	742,299	736,689	99.24%
2020	285,213,368	0.265	753,208	728,061	96.66%

(a) Unaudited.

Tax Rate Distribution

	2021	2020	2019	2018	2017
Debt Service	$ 0.175	$ 0.165	$ 0.185	$ 0.190	$ 0.180
Maintenance and Operations	0.073	0.100	0.100	0.090	0.100
Total	$ 0.248	$ 0.265	$ 0.285	$ 0.280	$ 0.280

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See "Tax Rate Distribution" and "Tax Roll Information" herein and "TAX PROCEDURES."

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. At an election held on January 8, 1997, the Board was authorized to levy such a maintenance tax in an amount not to exceed $0.10 per $100 of assessed valuation. For the 2021 tax year, the Board levied a maintenance tax in the amount of $0.073 per $100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds. See "Tax Rate Distribution" herein.

The Board adopted an order on July 19, 2021, calling a election to be held on November 2, 2021, for the purpose of increasing its authority to levy a maintenance tax in an amount not to exceed $1.00 per $100 of assessed valuation.

Tax Exemptions

For tax year 2021, the District has exempted twenty percent (20%) of the market value of any residential homesteads from taxation by the District and has exempted $3,000 for residential homesteads of persons sixty-five (65) years of age and older and/or disabled persons.

Summary of Assessed Valuation

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAX PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of certified property comprising the 2019 through 2021 Taxable Assessed Valuations. A breakdown of the uncertified portion of the 2021 Taxable Assessed Valuation is not available from the Appraisal District.

	2021 Assessed Valuation	2020 Assessed Valuation	2019 Assessed Valuation
Land	$ 66,972,500	$ 77,884,611	$ 75,972,067
Improvements	234,615,073	256,963,723	228,096,836
Personal Property	15,481,342	23,885,314	25,383,716
Exemptions	(68,573,829)	(73,520,280)	(68,996,964)
Certified Total	$ 248,495,086	$ 285,213,368	$ 260,455,655
Uncertified Value	54,176,286		-
Total	$ 302,671,372	$ 285,213,368	$ 260,455,655

Principal Taxpayers

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the 2021 tax roll which reflects ownership at January 1, 2021. A principal taxpayer list related to the uncertified portion of the 2021 Taxable Assessed Valuation is not available from the Appraisal District.

Taxpayer	Type of Property		2021 Certified Taxable Assessed Valuation	% of 2021 Certified Taxable Assessed Valuation
West Road Investors LP	Single-Family	$	22,673,059	7.49%
Fallbrook Ranch Ltd.	Multi-Family		7,700,503	2.54%
BPG Skilled Care Development	Commercial		6,458,174	2.13%
Haynes and The Dump	Personal Property		6,025,128	1.99%
West Road Land LP	Single-Family		5,321,165	1.76%
TCMA Commercial LLC	Single-Family		3,443,862	1.14%
Fry's Electronics Inc. (a)	Personal Property		1,872,588	0.62%
Centerpoint Energy Hou Ele	Utilities		1,835,170	0.61%
Baco Investments Inc	Single-Family		1,800,098	0.59%
Center West Plaza LLC	Single-Family		1,569,670	0.52%
Total		$	58,699,417	19.39%

(a) On February 24, 2021, Fry's Electronics Inc. went out of business and closed all its stores, including the store located in the District.

Tax Adequacy for Debt Service

The 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 debt service requirements if no growth in the District's tax base occurred beyond the 2021 Taxable Assessed Valuation of $302,671,372 ($248,495,086 certified and $54,176,286 uncertified). The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments."

Average Annual Debt Service Requirement (2022-2047).. $421,366
$0.15 Tax Rate on 2021 Taxable Assessed Valuation at 95% collections $431,307

Maximum Annual Debt Service Requirement (2028).. $525,763
$0.19 Tax Rate on 2021 Taxable Assessed Valuation at 95% collections $546,322

No representations or suggestions are made that the uncertified portion of the 2021 Taxable Assessed Valuation will be certified as taxable value by the Appraisal District, and no person should rely upon such amount or its inclusion herein as assurance of its attainment. See "TAX PROCEDURES."

TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately-owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2021 tax year, the District has granted an exemption of $3,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between $5,000 and $12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of a member of the armed forces or a first responder as defined under Texas law, who was (i) killed in action, or (ii) subject to an amendment to the Texas Constitution to be considered at an election on November 2, 2021, fatally injured in the line of duty, is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has not exercised its option to tax goods-in-transit personal property but may choose to do so in the future.

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than $5,000 if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2021 tax year, the District has granted a 20% general residential homestead exemption. The total value of the general residential homestead exemption for tax year 2021 was $28,182,372.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, under certain circumstances, an election would be required to determine whether to approve the adopted total tax rate. See "—Rollback of Operation and Maintenance Tax Rate" below. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2021, no land within the District was designated for agricultural use, open space, inventory deferment or timberland.

Tax Abatement

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

Levy and Collection of Taxes

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

Rollback of Operation and Maintenance Tax Rate

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

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

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

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

The District: A determination as to a district's status as a Low Tax Rate District, Developed District or Developing District will be made by the Board of Directors on an annual basis. For tax year 2021, the District has been designated as a "Developed District." The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

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

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

WATER AND SEWER OPERATIONS

General

The Bonds are payable from the levy of an annual ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District and are further payable from and secured by a pledge of and lien on Net Revenues from operations of the District's water and sanitary sewer system. It is anticipated that no significant Net Revenues will be available for the payment of debt service on the Bonds in the foreseeable future.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operations of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for fiscal years 2017 through 2020, and for the unaudited period through July 31, 2021 by the District's bookkeeper. Reference is made to such records and statements for further and more complete information.

	10/01/2020 to 7/31/2021 (a)	Fiscal Year Ended September 30			
		2020	2019	2018	2017
Revenues					
Property Taxes	$ 279,404	$ 260,534	$ 218,430	$ 232,896	$ 209,879
Payments in Lieu of Taxes	17,616	17,616	17,616	17,616	17,616
Sales Tax Receipts	351,359	404,530	514,880	587,678	518,937
Water Service	328,886	635,104	463,551	423,925	511,030
Wastewater Service	639,320	825,260	820,147	741,857	859,123
Regional Water Authority Fee	475,016	676,472	661,438	582,993	615,220
Penalty and Interest	21,589	29,913	44,125	39,305	50,025
Tap Connection and Inspection Fees	-	8,840	10,490	35,730	74,465
Investment Revenues	3,645	63,094	151,902	102,491	28,808
Miscellaneous	21,113	32,957	46,804	36,399	21,280
Total Revenues	$ 2,137,949	$ 2,954,320	$ 2,949,383	$ 2,800,890	$ 2,906,383
Expenditures					
Professional Fees	$ 144,200	$ 170,182	$ 153,308	$ 153,878	$ 135,500
Contracted Services	408,648	601,516	614,316	581,553	596,151
Utilities	234,054	257,414	249,693	234,450	262,449
Repairs and Maintenance	332,174	479,038	359,248	305,056	224,903
Regional Water Authority Assessment	452,499	704,913	640,627	630,558	481,303
Other	239,209	280,002	342,805	362,586	372,935
Capital Outlay	15,772	13,869	384,606	460,241	387,380
Total Expenditures	$ 1,826,556	$ 2,506,934	$ 2,744,603	$ 2,728,322	$ 2,460,621
Revenues Over (Under) Expenditures	$ 311,393	$ 447,386	$ 204,780	$ 72,568	$ 445,762
Other Sources (Interfund Transfer)	$ -	$ -	$ -	$ -	$ 533,593
Other Sources (Capital Contribution)	$ -	$ -	$ -	$ -	$ 1,376,145
Fund Balance (Beginning of Year)	$ 7,587,971	$ 7,140,585	$ 6,935,805	$ 6,863,237	$ 4,507,737
Fund Balance (End of Year)	$ 7,899,364	$ 7,587,971	$ 7,140,585	$ 6,935,805	$ 6,863,237

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

DEBT SERVICE REQUIREMENTS

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

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2022	$ 389,900		$ 79,328	$ 79,328	$ 469,228
2023	394,000		100,913	100,913	494,913
2024	404,850		100,913	100,913	505,763
2025	407,000		100,913	100,913	507,913
2026	413,200		100,913	100,913	514,113
2027	417,400		100,913	100,913	518,313
2028	424,850		100,913	100,913	525,763
2029	402,300		100,913	100,913	503,213
2030	389,950		100,913	100,913	490,863
2031	377,700		100,913	100,913	478,613
2032	365,550		100,913	100,913	466,463
2033	353,500		100,913	100,913	454,413
2034	-	$ 265,000	98,263	363,263	363,263
2035	-	270,000	92,913	362,913	362,913
2036	-	275,000	87,463	362,463	362,463
2037	-	280,000	81,913	361,913	361,913
2038	-	290,000	75,850	365,850	365,850
2039	-	295,000	69,269	364,269	364,269
2040	-	300,000	62,388	362,388	362,388
2041	-	305,000	55,203	360,203	360,203
2042	-	310,000	47,513	357,513	357,513
2043	-	320,000	39,244	359,244	359,244
2044	-	325,000	30,778	355,778	355,778
2045	-	330,000	22,181	352,181	352,181
2046	-	335,000	13,453	348,453	348,453
2047	-	345,000	4,528	349,528	349,528
Total	$ 4,740,200	$ 4,245,000	$ 1,970,322	$ 6,215,322	$ 10,955,522

Maximum Annual Debt Service Requirement (2028) $525,763
Average Annual Debt Service Requirements (2022-2047) $421,366

INVESTMENT CONSIDERATIONS

General

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

Infectious Disease 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. 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 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. A significant percentage of the taxable value in the District results from the current market value of commercial retailers in the District whose businesses are largely dependent on in-person transactions. Therefore, continued business operations at these retailers may be particularly impacted by the challenges posed by the COVID-19 pandemic. In February 2021, Fry's Electronics, Inc., the seventh largest taxpayer in the District, announced the closure of all of its locations, including the one in the District, due in part, to the challenges posed by the Pandemic. The District is not currently aware of any 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 "Dependence on Principal Taxpayers" below. See "—Dependence on Principal Taxpayers" herein.

Potential Effects of Oil Price Volatility on the Houston Area

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

Extreme Weather Events

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced multiple storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to the Operator and the Engineer, the District's System did not sustain any material damage and there was no interruption of water and sewer service. However, the District did receive reports that approximately 200-400 homes within the District sustained varied amounts of flooding as a result of Hurricane Harvey.

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

Specific Flood Type Risks

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

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, multi-family residences and commercial property. The market value of such properties is related to general economic conditions affecting the demand for residences. Demand for lots of this type and commercial properties can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and cost, employment stability, and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See "Credit Markets and Liquidity in the Financial Markets" and "Downturn in the Housing Market" below and "THE DISTRICT—Status of Development."

Dependence on Principal Taxpayers

The ten principal taxpayers represent $52,430,944 or 18.38% of the 2021 Certified Taxable Assessed Valuation. On February 24, 2021, the seventh largest taxpayer in the District, Fry's Electronics Inc., went out of business and closed all of its stores, including the store located in the District. If any of the major taxpayers were to default in the payment of taxes in an amount which exceeds the District's Bond Fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to liquidate its tax lien or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its Bond Fund. See "Tax Collection Limitations" and "Registered Owners' Remedies and Bankruptcy Limitations" in this section, "TAX DATA—Principal Taxpayers," and "TAX PROCEDURES—Levy and Collection of Taxes."

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their ad valorem taxes. The 2021 Taxable Assessed Valuation of the District is $302,671,372 ($248,495,086 certified and $54,176,286 uncertified). See "FINANCIAL STATEMENT." After issuance of the Bonds, the maximum annual debt service requirement will be $525,763 (2028) and the average annual debt service requirement will be $421,366 (2022-2047). Assuming no increase or decrease from the 2021 Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of $0.19 per $100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of $525,763 and a tax rate of $0.15 per $100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of $421,366. See "DEBT SERVICE REQUIREMENTS." Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Outstanding Bonds based upon the 2021 Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event major taxpayers do not pay their District taxes timely. See "TAX PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of $20,000,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds have been authorized by the District's voters for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and the voters could authorize additional amounts. After issuance of the Bonds, no principal amount of waterworks and sewer system combination unlimited tax and revenue bonds will remain authorized but unissued. The Board adopted an order on July 19, 2021, calling a bond election to be held on November 2, 2021, for the purpose of submitting the propositions to the District's voters for the authorization of $57,800,000 in principal amount of unlimited tax bonds for acquiring or constructing water, sanitary sewer and drainage facilities, $57,800,000 in principal amount of unlimited tax refunding bonds and the authorization to levy a maintenance tax in an amount not to exceed $1.00 per $100 of assessed valuation. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

The 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 for water, sanitary sewer and drainage facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

Environmental and Air Quality Regulations

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

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

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

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

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

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in South Coast Air Quality Management District v. EPA, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA's decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA's April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court's ruling, the TCEQ developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

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

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

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

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

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

Pursuant to the federal Safe Drinking Water Act ("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 became effective June 22, 2020, and is currently the subject of ongoing litigation.

In June and July of 2021, the EPA and USACE announced plans to further revise the definition of "waters of the United States." On August 30, 2021, the United States District Court for the District of Arizona issued an order vacating the NWPR while the EPA and USACE make plans to replace it. In light of this order, the EPA and the USACE announced that they have halted implementation of the NWPR and are interpreting "waters of the United States" consistent with the pre-2015 regulatory regime until further notice while continuing to move forward with the rulemakings announced in June of 2021. Due to existing and possible future litigation and regulatory action, 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 Collection Limitations

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

Registered Owners Remedies

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

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

Bankruptcy Limitation to Registered Owners' Rights

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

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

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

A district may not be forced into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

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

Marketability

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

Future and Proposed Legislation

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

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

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

LEGAL MATTERS

Legal Opinions

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

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

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

Legal Review

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections "THE BONDS," "THE DISTRICT – General" "Strategic Partnership Agreement," and "MANAGEMENT OF THE DISTRICT - Bond Counsel and General Counsel," "TAX PROCEDURES," and "LEGAL MATTERS" solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Tax Exemption

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

In rendering its opinion, Bond Counsel will rely upon, and assume continuing compliance with, (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate issued in connection with the Bonds, and (b) covenants of the District contained in the Bond Order relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

Qualified Tax-Exempt Obligations

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

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

Collateral Federal Income Tax Consequences

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, 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, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health-insurance premium assistance credit, and individuals allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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

Under Existing Law, 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. See “Tax Exemption” herein for a discussion of certain collateral federal tax consequences.

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and 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, 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 ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction.

The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

NO MATERIAL ADVERSE CHANGE

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

NO-LITIGATION CERTIFICATE

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

SALE AND DISTRIBUTION OF THE BONDS

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was rendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") bearing the interest rates shown on the cover page of this Official Statement, at a price of 97.1496% of the principal amount thereof which resulted in a net effective interest rate of 2.577754% as calculated pursuant to Chapter 1204, Texas Government Code (the "IBA" method).

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

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

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of municipal 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, which are more generally bought, sold or traded in the secondary market.

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 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"). S&P has assigned an underlying rating of "A" to the Bonds. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND INSURANCE," and "APPENDIX B."

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating 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 B to this OFFICIAL STATEMENT.

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $488.6 million, $165.5 million and $323.1 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

Consultants

In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the system and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" 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.

Tax Assessor Collector: The information contained in this Official Statement relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by Assessments of the Southwest, Inc. and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

Auditor: The District's financial statements for the fiscal year ending September 30, 2020, have been audited by the independent accounting firm of McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's September 30, 2020 audited financial statements.

Bookkeeper: The information related to the unaudited summary of the District's General Operating Fund as it appears in "WATER AND SEWER OPERATIONS" has been provided by District Data Services, Inc., and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

For the period beginning on the date of the award of the sale of the Bonds to the Initial Purchaser and ending on the ninety-first (91st) day after the "end of the underwriting period," (as defined in Rule 15c(2)-12(f)(2) of the United States Securities and Exchange Commission (the "SEC")), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement this Official Statement in order to make the statements herein, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, not materially misleading, the District will promptly notify the Initial Purchaser of the occurrence of such event and will cooperate in the preparation of a revised Official Statement, or amendments or supplements hereto, so that the statements in this Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, be materially misleading. The District assumes no responsibility for supplementing this Official Statement thereafter.

Certification of Official Statement

The District, acting through its Board in its official capacity and in reliance upon the experts listed above, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated with respect to the District is found in Appendix A. The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2021.

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

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

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-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws.

Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB. Investors can access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance With Prior Undertakings

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

MISCELLANEOUS

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

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

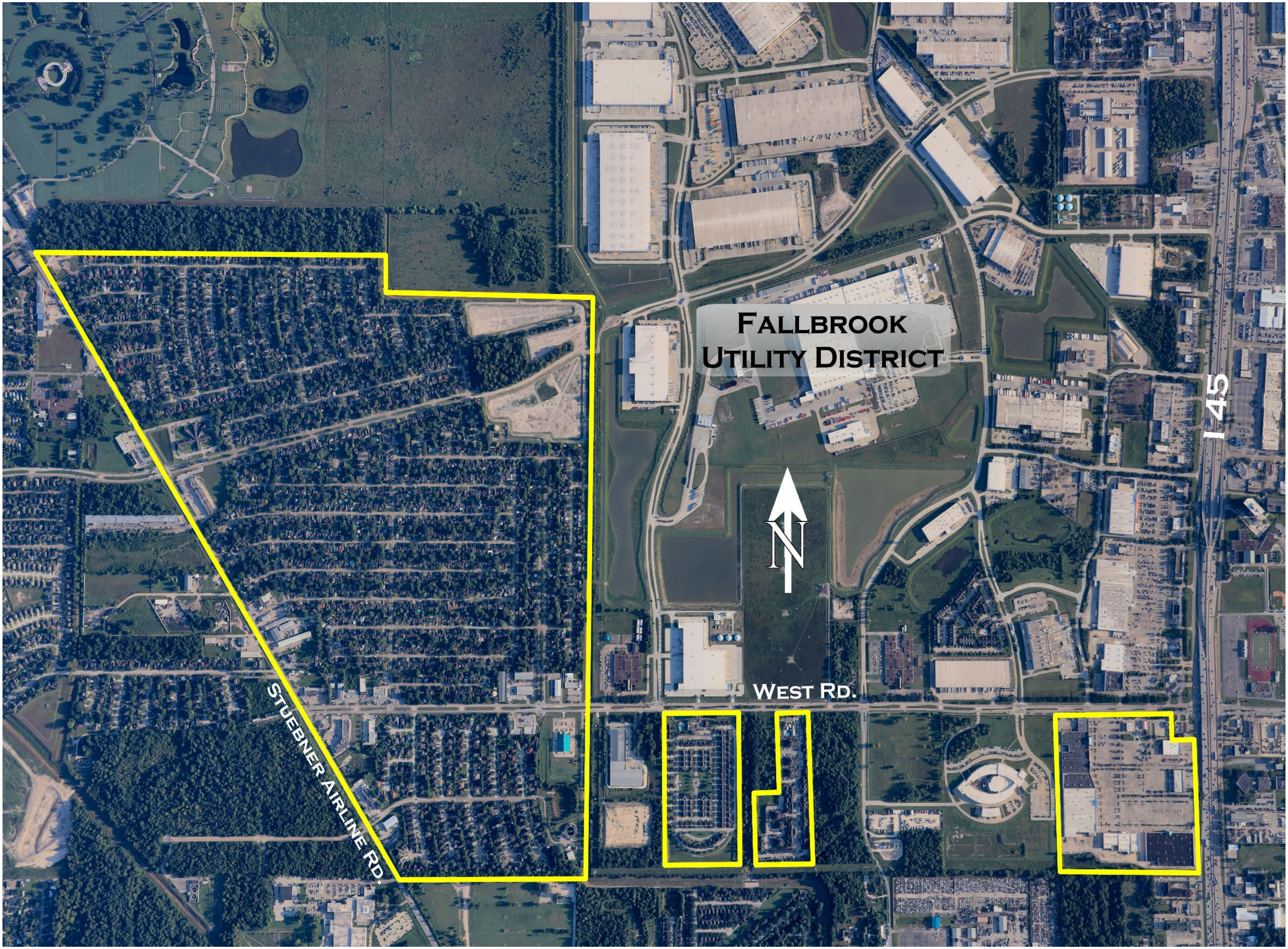
/s/Linda Watkins
President, Board of Directors

ATTEST:

/s/Joyce King
Secretary, Board of Directors

AERIAL PHOTO

(Approximate boundaries as of September 2021)


FALLBROOK
UTILITY DISTRICT
WEST RD.
STUEBNER AIRLINE RD.
I 45
N

PHOTOGRAPHS

The following photographs were taken in the District in September 2021 solely to illustrate the type of improvements which have been constructed in the District. The District cannot predict if additional improvements will be constructed in the future.


FALLBROOK
RANCH


THE DUMP
furniture outlet


PartyCity
NOBODY HAS MORE PARTY FOR LESS
Marshalls


EXXON


WASHATERIA
FOLD.
BAYOU SEAFOOD

APPENDIX A

District Audited Financial Statements for the fiscal year ended September 30, 2020

FALLBROOK UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

FALLBROOK UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020

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McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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Fax (713) 462-2708

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fallbrook Utility District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fallbrook Utility District (the "District"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 September 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

December 21, 2020

FALLBROOK UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by $11,197,507 as of September 30, 2020.

A portion of the District's net position reflects its net investment in capital assets (e.g. land, buildings and equipment as well as water and wastewater facilities, less any debt used to acquire those assets that is still outstanding).

The following is a comparative analysis of government-wide changes in net position:

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2020	2019	Change Positive (Negative)
Current and Other Assets	$ 8,414,066	$ 7,850,990	$ 563,076
Capital Assets (Net of Accumulated Depreciation)	7,800,018	8,172,369	(372,351)
Total Assets	$ 16,214,084	$ 16,023,359	$ 190,725
Deferred Outflows of Resources	$ 73,423	$ -0-	$ 73,423
Long-Term Liabilities	$ 4,349,148	$ 4,392,582	$ 43,434
Other Liabilities	740,852	697,798	(43,054)
Total Liabilities	$ 5,090,000	$ 5,090,380	$ 380
Net Position:			
Net Investment in Capital Assets	$ 3,239,293	$ 3,529,787	$ (290,494)
Restricted	343,263	244,834	98,429
Unrestricted	7,614,951	7,158,358	456,593
Total Net Position	$ 11,197,507	$ 10,932,979	$ 264,528

The following table provides a summary of the District's operations for the years ended September 30, 2020, and September 30, 2019.

	Summary of Changes in the Statement of Activities		
	2020	2019	Change Positive (Negative)
Revenues:			
Property Taxes	$ 740,546	$ 680,383	$ 60,163
Payments in Lieu of Taxes	17,616	17,616	
Sales Tax Receipts	404,530	514,880	(110,350)
Charges for Services	2,208,482	2,027,273	181,209
Other Revenues	106,064	201,794	(95,730)
Total Revenues	$ 3,477,238	$ 3,441,946	$ 35,292
Expenses for Services	3,212,710	3,087,300	(125,410)
Change in Net Position	$ 264,528	$ 354,646	$ (90,118)
Net Position, Beginning of Year	10,932,979	10,578,333	354,646
Net Position, End of Year	$ 11,197,507	$ 10,932,979	$ 264,528

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2020, were $7,874,742, an increase of $543,388 from the prior year.

The General Fund fund balance increased by $447,386, primarily due operating revenues exceeding operating costs.

The Debt Service Fund fund balance increased by $96,002, primarily due to the structure of the District's outstanding debt and issuance of Series 2020 Refunding bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were $287,820 more than budgeted revenues primarily due to higher than expected sales tax receipts, regional water authority fees and investment revenues. Actual expenditures were $2,054,634 less than budgeted expenditures primarily due to lower than expected capital expenditures.

CAPITAL ASSETS

Capital assets as of September 30, 2020, total $7,800,018 (net of accumulated depreciation) and include land, buildings and equipment as well as the water and wastewater systems. Additional information on the District's capital assets can be found in Note 6 of this report.

Significant capital asset events during the current fiscal year included the following: construction in progress includes engineering related to emergency interconnect with Harris County Municipal Utility District Nos. 321 and 406.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2020	2019	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	$ 133,552	$ 133,552	$
Construction in Progress	40,194	26,325	13,869
Capital Assets, Net of Accumulated Depreciation:			
Equipment	34,225	35,374	(1,149)
Water System	2,178,353	2,321,552	(143,199)
Wastewater System	5,112,362	5,347,292	(234,930)
Drainage System	301,332	308,274	(6,942)
Total Net Capital Assets	$ 7,800,018	$ 8,172,369	$ (372,351)

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the District had total long-term debt payable of $4,440,000. The changes in the debt position of the District during the fiscal year ended September 30, 2020, are summarized as follows:

Bond Debt Payable, October 1, 2019	$	4,710,000
Add: Series 2020 Refunding Bond Sale		4,340,000
Less: Bond Refunded		4,360,000
Less: Bond Principal Paid		250,000
Bond Debt Payable, September 30, 2020	$	4,440,000

The District's bonds carry an underlying rating of "A" by Standard and Poor's Ratings Services ("S&P"). The Series 2020 Refunding Bonds carry an insured rating of "AA" by S & P based on a policy issued by Assured Guaranty Corporation. The Series 2013 bonds are not insured.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Fallbrook Utility District, c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056-3078.

FALLBROOK UTILITY DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2020

	General Fund	Debt Service Fund
ASSETS		
Cash	$ 432,600	$ 45,685
Investments	7,192,421	239,633
Receivables:		
Property Taxes	17,139	36,734
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of $2,000)	172,710	
Other	500	
Due from Other Funds	729	2,926
Due from City of Houston	115,283	
Prepaid Costs	6,046	
Due from Other Governmental Units	116,674	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	$ 8,054,102	$ 324,978
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	$ - 0 -	$ - 0 -
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 8,054,102	$ 324,978

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

Total	Adjustments	Statement of Net Position
$ 478,285	$	$ 478,285
7,432,054		7,432,054
53,873		53,873
	28,800	28,800
172,710		172,710
500		500
3,655	(3,655)	
115,283		115,283
6,046	9,841	15,887
116,674		116,674
	133,552	133,552
	40,194	40,194
	7,626,272	7,626,272
$ 8,379,080	$ 7,835,004	$ 16,214,084
$ - 0 -	$ 73,423	$ 73,423
$ 8,379,080	$ 7,908,427	$ 16,287,507

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

FALLBROOK UTILITY DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2020

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	$ 95,624	$ 744
Accrued Interest Payable		
Due to Other Governments	78,994	
Due to Other Funds	2,926	729
Due to Voluntary Services	4,988	
Security Deposits	266,460	
Long-Term Liabilities:		
Due Within One Year		
Due After One Year		
TOTAL LIABILITIES	$ 448,992	$ 1,473
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	$ 17,139	$ 36,734
FUND BALANCES		
Nonspendable:		
Prepaid Costs	$ 6,046	$
Restricted for Debt Service		286,771
Assigned to 2021 Budget	2,063,768	
Unassigned	5,518,157	
TOTAL FUND BALANCES	$ 7,587,971	$ 286,771
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 8,054,102	$ 324,978
NET POSITION		
Net Investment in Capital Assets		
Restricted for:		
Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Total	Adjustments	Net Position
$ 96,368	$	$ 96,368
	9,042	9,042
78,994		78,994
3,655	(3,655)	
4,988		4,988
266,460		266,460
	285,000	285,000
	4,349,148	4,349,148
$ 450,465	$ 4,639,535	$ 5,090,000
$ 53,873	$ (53,873)	$ - 0 -
$ 6,046	$ (6,046)	$
286,771	(286,771)	
2,063,768	(2,063,768)	
5,518,157	(5,518,157)	
$ 7,874,742	$ (7,874,742)	$ - 0 -
$ 8,379,080		
	$ 3,239,293	$ 3,239,293
	343,263	343,263
	7,614,951	7,614,951
	$ 11,197,507	$ 11,197,507

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

FALLBROOK UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

Total Fund Balances - Governmental Funds		$	7,874,742
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Prepaid bond insurance costs in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.			9,841
Land, construction in progress and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.			7,800,018
Deferred charges on refunding bonds are recorded as a deferred outflow in the governmental activities and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.			73,423
Deferred inflows of resources related to property tax revenues and penalty and interest revenues on delinquent taxes for the 2019 and prior tax levies became part of recognized revenues in the governmental activities of the District.			82,673
Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:			
Accrued Interest Payable	$ (9,042)		
Bonds Payable Within One Year	(285,000)		
Bonds Payable After One Year	(4,349,148)		(4,643,190)
Total Net Position - Governmental Activities		$	11,197,507

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

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FALLBROOK UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	$ 260,534	$ 484,657
Payments in Lieu of Taxes	17,616	
Sales Tax Receipts	404,530	
Water Service	635,104	
Wastewater Service	825,260	
Regional Water Authority Fees	676,472	
Penalty and Interest	29,913	31,101
Tap Connection and Inspection Fees	8,840	
Investment Revenues	63,094	2,614
Miscellaneous Revenues	32,957	7,399
TOTAL REVENUES	$ 2,954,320	$ 525,771
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	$ 170,182	$ 11,039
Contracted Services	601,516	36,370
Utilities	257,414	
Repairs and Maintenance	479,038	
Regional Water Authority Assessments	704,913	
Depreciation		
Other	280,002	3,553
Capital Outlay	13,869	
Debt Service:		
Bond Principal		250,000
Bond Interest		131,733
Bond Issuance Costs		164,836
TOTAL EXPENDITURES/EXPENSES	$ 2,506,934	$ 597,531
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	$ 447,386	$ (71,760)
OTHER FINANCING SOURCES (USES)		
Refunding Bonds	$	$ 4,340,000
Payment to Refunded Bond Escrow Agent		(4,373,678)
Bond Premium		201,440
TOTAL OTHER FINANCING SOURCES (USES)	$ - 0 -	$ 167,762
NET CHANGE IN FUND BALANCES	$ 447,386	$ 96,002
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - OCTOBER 1, 2019	7,140,585	190,769
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2020	$ 7,587,971	$ 286,771

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

Total	Adjustments	Statement of Activities
$ 745,191	$ (4,645)	$ 740,546
17,616		17,616
404,530		404,530
635,104		635,104
825,260		825,260
676,472		676,472
61,014	1,792	62,806
8,840		8,840
65,708		65,708
40,356		40,356
$ 3,480,091	$ (2,853)	$ 3,477,238
$ 181,221	$	$ 181,221
637,886		637,886
257,414		257,414
479,038		479,038
704,913		704,913
	386,220	386,220
283,555		283,555
13,869	(13,869)	
250,000	(250,000)	
131,733	(3,895)	127,838
164,836	(10,211)	154,625
$ 3,104,465	$ 108,245	$ 3,212,710
$ 375,626	$ (375,626)	$ - 0 -
$ 4,340,000	$ (4,340,000)	$
(4,373,678)	4,373,678	
201,440	(201,440)	
$ 167,762	$ (167,762)	$ - 0 -
$ 543,388	$ (543,388)	$
	264,528	264,528
7,331,354	3,601,625	10,932,979
$ 7,874,742	$ 3,322,765	$ 11,197,507

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

FALLBROOK UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Net Change in Fund Balances - Governmental Funds	$	543,388
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenues are recorded in the accounting period for which the taxes are levied.		(4,645)
Governmental funds report delinquent tax penalty and interest when collected. However, in the government-wide financial statements, revenues are recorded when penalty and interest are assessed.		1,792
Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(386,220)
Governmental funds report capital asset costs as expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases that meet the District's threshold for capitalization, and are owned and maintained by the District. All other capital asset purchases are expensed in the Statement of Activities.		13,869
Governmental funds report principal payments on long-term debt as expenditures. However, in the government-wide financial statements, principal payments decrease long-term liabilities and the Statement of Activities is not affected.		250,000
Governmental funds report interest payments on long-term debt as expenditures. However, in the government-wide financial statements, interest is accrued on the debt through fiscal year-end.		3,895
Governmental funds report bond premiums as other financing uses and bond insurance as an expenditure in the year paid. However, in the government-wide financial statements, bond premiums and bond insurance is amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		(191,229)
Governmental funds report refunding bond proceeds as other financing sources. However, issuing bonds increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.		(4,340,000)
Governmental funds report the payment to the refunded bond escrow agent as an other financing use. However, the refunding of outstanding bonds decreases long-term liabilities in the Statement of Net Positon.		4,373,678
Change in Net Position - Governmental Activities	$	264,528

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

FALLBROOK UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1. CREATION OF DISTRICT

Fallbrook Utility District, located in Harris County, Texas (the "District"), was created by Acts of the 61st Legislature of the State of Texas, Regular Session, 1969, in accordance with Texas Water Code, Chapter 51. Pursuant to the provisions of Chapters 49 and 51 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct and maintain parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all firefighting activities within the District. The Board of Directors held its first meeting on July 14, 1969, and the first bonds were sold on December 1, 1969.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

The District has two governmental funds and considers these funds to be major funds.

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

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

Basis of Accounting

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

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

Assets are capitalized, including infrastructure assets, if they have an original cost of $5,000 or more and a useful life of at least two years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

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

Budgeting

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

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

Measurement Focus

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

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

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

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

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

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. As of September 30, 2020, the District has assigned $2,063,768 of the General Fund fund balance to cover a portion of the 2021 budget.

Unassigned: all other spendable amounts in the General Fund.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	Series 2013	Series 2020
Amount Outstanding - September 30, 2020	$100,000	$4,340,000
Interest Rates	2.00%	2.00%-4.00%
Maturity Dates – Beginning/Ending	March 1, 2021/2024	March 1, 2021/2033
Interest Payment Dates	March1/ September 1	March1/ September 1
Callable Dates	March 1, 2020*	March 1, 2026*

* Or any date thereafter, at the option of the District, in whole or from time to time in part, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. The Series 2013 term bonds maturing March 1, 2024 are also subject to mandatory sinking fund redemption with payments beginning March 1, 2023.

NOTE 3. LONG-TERM DEBT (Continued)

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

	October 1, 2019	Additions	Retirements	September 30, 2020
Bonds Payable	$ 4,710,000	$ 4,340,000	$ 4,610,000	$ 4,440,000
Unamortized Discounts	(67,418)		(67,418)	
Unamortized Premiums		201,440	7,292	194,148
Bonds Payable, Net	$ 4,642,582	$ 4,541,440	$ 4,549,874	$ 4,634,148

Amount Due Within One Year	$ 285,000
Amount Due After One Year	4,349,148
Bonds Payable, Net	$ 4,634,148

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

Fiscal Year	Principal	Interest	Total
2021	$ 285,000	$ 105,650	$ 390,650
2022	290,000	99,900	389,900
2023	300,000	94,000	394,000
2024	320,000	84,850	404,850
2025	335,000	72,000	407,000
2026-2030	1,845,000	202,700	2,047,700
2031-2033	1,065,000	31,750	1,096,750
	$ 4,440,000	$ 690,850	$ 5,130,850

As of September 30, 2020, the District had $4,245,000 authorized but unissued bonds available for water, wastewater and drainage facilities.

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District’s waterworks and wastewater system.

NOTE 3. LONG-TERM DEBT (Continued)

During the year ended September 30, 2020, the District levied an ad valorem debt service tax at the rate of $0.185 per $100 of assessed valuation, which resulted in a tax levy of $481,927 on the adjusted taxable valuation of $260,501,274 for the 2019 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

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

NOTE 4. SIGNIFICANT BOND ORDERS AND LEGAL REQUIREMENTS

A. The bond orders provide that at the discretion of the Board of Directors, the profits realized from interest accruing on investments of any fund, may be transferred to the Debt Service Fund. During the current fiscal year, all profits realized from or interest earned on investments remained in the fund from which the original investment was made.

B. The bond orders state that the District is required to provide annually to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System ("EMMA") continuing disclosure of financial information and operating data with respect to the District of the general type included in the annual audit report. This information must be filed within six months after the end of each fiscal year of the District.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's deposits was $478,285 and the bank balance was $537,154. Of the bank balance, $297,851 was covered by federal depository insurance and the balance was covered by collateral pledged in the District's name and held in a third-party depository.

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

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

	Cash
GENERAL FUND	$ 432,600
DEBT SERVICE FUND	45,685
TOTAL DEPOSITS	$ 478,285

Investments

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

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

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

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

Fund and Investment Type	Fair Value	Maturities in Years: Less Than 1	1-5	6-10	More Than 10
GENERAL FUND					
TexPool	$ 7,192,421	$ 7,192,421	$	$	$
DEBT SERVICE FUND					
TexPool	239,633	239,633			
TOTAL INVESTMENTS	$ 7,432,054	$ 7,432,054	$ - 0 -	$ - 0 -	$ - 0 -

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2020, the District's investments in TexPool were rated "AAAm" by Standard and Poor's.

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

Restrictions

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

NOTE 6. CAPITAL ASSETS

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

	October 1, 2019	Increases	Decreases	September 30, 2020
Capital Assets Not Being Depreciated				
Land and Land Improvements	$ 133,552	$	$	$ 133,552
Construction in Progress	26,325	13,869		40,194
Total Capital Assets Not Being Depreciated	$ 159,877	$ 13,869	$ - 0 -	$ 173,746
Capital Assets Subject to Depreciation				
Equipment	$ 51,573	$	$	$ 51,573
Water System	5,937,427			5,937,427
Wastewater System	9,287,465			9,287,465
Drainage System	311,556			311,556
Total Capital Assets Cost Subject to Depreciation	$ 15,588,021	$ - 0 -	$ - 0 -	$ 15,588,021
Accumulated Depreciation				
Equipment	$ 16,199	$ 1,149	$	$ 17,348
Water System	3,615,875	143,199		3,759,074
Wastewater System	3,940,173	234,930		4,175,103
Drainage System	3,282	6,942		10,224
Total Accumulated Depreciation	$ 7,575,529	$ 386,220	$ - 0 -	$ 7,961,749
Total Depreciable Capital Assets, Net of Accumulated Depreciation	$ 8,012,492	$ (386,220)	$ - 0 -	$ 7,626,272
Total Capital Assets, Net of Accumulated Depreciation	$ 8,172,369	$ (372,351)	$ - 0 -	$ 7,800,018

The District has financed drainage facilities which have been conveyed to other entities for maintenance.

NOTE 7. MAINTENANCE TAX

On January 8, 1997, the voters of the District approved the levy and collection of a maintenance tax not to exceed $0.10 per $100 of assessed valuation of taxable property within the District. During the current fiscal year, the District levied an ad valorem maintenance tax at the rate of $0.10 per $100 of assessed valuation, which resulted in a tax levy of $260,501 on the taxable valuation of $260,501,274 for the 2019 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

NOTE 8. EMERGENCY WATER SUPPLY AGREEMENTS

Harris County Municipal Utility District No. 11

On June 10, 1975, the District entered into an emergency water supply agreement with Harris County Municipal Utility District No. 11 ("District No. 11"). The cost of constructing the waterline and interconnect was borne by the District, except for the cost of 560 feet of 12-inch waterline which was shared equally by the districts. Each district is responsible for maintaining at its sole cost and expense the facilities which it owns. On August 17, 1998, the District adopted a supplement to the emergency water supply agreement with District No. 11. The price to be paid for water delivered shall be $0.50 per 1,000 gallons of water usage for any water used during a temporary period. The agreement shall be subject to review and renegotiation every two years from the date of this agreement and at the time of conversion of either party or both parties to surface water.

Harris County Municipal Utility District No. 321

On October 19, 1988, the District entered into an emergency water supply contract with Harris County Municipal Utility District No. 321 ("District No. 321"). The cost of constructing the waterline and interconnect was borne by District No. 321. Each district is responsible for maintaining at its sole cost and expense the facilities which it owns. The price to be paid for water delivered shall be $0.50 per 1,000 gallons of average daily usage for the number of days water is received. The term of the contract is 35 years.

NOTE 9. CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY

On December 13, 2002, the District, Harris County Municipal Utility District No. 33, Harris County Municipal Utility District No. 150, Harris County Municipal Utility District No. 200, Harris County Municipal Utility District No. 205, Harris County Municipal Utility District No. 215, Harris County Municipal Utility District No. 217, Harris County Municipal Utility District No. 304, Harris County Utility District No. 16, and Rankin Road West Municipal Utility District entered into a water consortium agreement and formed the Central Harris County Water Users Consortium (the "Consortium"). In October 2004, the agreement was amended to include Harris County Municipal Utility District No. 399.

Effective June 17, 2005, the Central Harris County Regional Water Authority (the "Authority") was created to assume the duties of the Consortium. The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 3181, as passed by the Seventy-ninth Texas Legislature. The Authority encompasses essentially the same entities as the Consortium. The Consortium assigned its agreements and transferred its assets to the Authority. The purpose of the Authority is to assure that its participants comply with the Harris-Galveston Subsidence District ("HGSD") pumpage requirements, which mandate that districts within HGSD boundaries, including the District, convert a percentage of its water use to surface water over a period of time.

NOTE 9. CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY (Continued)

The Authority currently charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions and is subject to change at any time by the Authority. The current GRP pumpage fee is $3.01 per 1,000 gallons of water pumped from each well. The District recorded an expenditure of $704,913 for fees assessed during the current fiscal year.

Prior to receiving surface water from the Authority, each district must construct a new disinfection system at their water facilities. The District constructed Phase I of these disinfection facilities for a cost of $160,418. The District was reimbursed in full by the Authority for the construction costs of the Phase I facilities in a prior fiscal year.

NOTE 10. STRATEGIC PARTNERSHIP AGREEMENT

Effective June 25, 2004, the District entered into a Strategic Partnership Agreement ("SPA") with the City of Houston, Texas (the "City"). Effective December 15, 2011, the original SPA was superseded and replaced by an amended and restated SPA. The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City shall annex a tract of land defined as the "Subject Tract" for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Subject Tract within the boundaries of the District. The District will continue to develop, to own, and to operate and maintain its water and wastewater systems.

All taxable property within the District shall not be liable for any present or future debts of the City, and current and future taxes levied by the City shall not be levied on taxable property within the District. Upon the limited-purpose annexation of the Subject Tract the City's municipal courts shall have jurisdiction to adjudicate criminal cases filed under the Planning, Zoning, Health and Safety Ordinances and State laws. Provisions of the Regulatory Plan adopted by the City will be applicable to the Subject Tract of land within the District. The District's assets, liabilities, indebtedness, and obligations will remain the responsibility of the District during the period preceding full-purpose annexation.

After the Subject Tract is annexed for limited purposes by the City, the qualified voters of the Subject Tract may vote in City elections pursuant to Local Government Code. The City is responsible for notifying the voters within the Subject Tract.

NOTE 10. STRATEGIC PARTNERSHIP AGREEMENT (Continued)

The City imposes a Sales and Use Tax within the boundaries of the Subject tract upon the limited-purpose annexation of the Subject Tract. The Sales and Use Tax is imposed on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City agreed to pay to the District an amount equal to one-half of all Sales and Use Tax receipts generated within the boundaries of the Subject Tract. The City agreed to deliver to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Controller's office. During the current fiscal year, the District recorded revenue of $404,530 for its share of the sales tax receipts. As of September 30, 2020, $115,283 was recorded as receivable.

The City agrees that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date of the agreement.

NOTE 11. RISK ASSESSMENT

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

NOTE 12. INTERFUND BALANCES

The Debt Service Fund (Tax Account) owes the General Fund $729 for maintenance tax collections. The General Fund owes the Debt Service Fund $2,926 for excess bond proceeds.

NOTE 13. REFUNDING BOND SALE

On March 30, 2020, the District closed on its $4,340,000 Series 2020 Unlimited Tax Refunding Bonds. Proceeds were used to refund: $2,360,000 of the Series 2010 Bonds with maturities of 2021 through 2028, interest rates of 3.75% to 4.00% and a redemption date of April 3, 2020; and $2,000,000 of the Series 2013 Bonds with maturities of 2025 through 2033; interest rate of 2.75% to 3.25% and a redemption date of April 3, 2020. The refunding resulted in a gross debt service savings of $447,492 and net present value savings of $364,159.

NOTE 14. UNCERTAINTIES

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

FALLBROOK UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2020

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

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	$ 211,000	$ 260,534	$ 49,534
Payments in Lieu of Taxes	18,000	17,616	(384)
Sales Tax Receipts	500,000	404,530	(95,470)
Water Service	401,000	635,104	234,104
Wastewater Service	737,000	825,260	88,260
Regional Water Authority Fees	580,000	676,472	96,472
Penalty and Interest	39,000	29,913	(9,087)
Tap Connection and Inspection Fees	6,500	8,840	2,340
Investment Revenues	150,000	63,094	(86,906)
Miscellaneous Revenues	24,000	32,957	8,957
TOTAL REVENUES	$ 2,666,500	$ 2,954,320	$ 287,820
EXPENDITURES			
Services Operations:			
Professional Fees	$ 164,000	$ 170,182	$ (6,182)
Contracted Services	623,368	601,516	21,852
Utilities	254,000	257,414	(3,414)
Repairs and Maintenance	415,000	479,038	(64,038)
Regional Water Authority Assessments	580,000	704,913	(124,913)
Other	386,000	280,002	105,998
Capital Outlay	2,139,200	13,869	2,125,331
TOTAL EXPENDITURES	$ 4,561,568	$ 2,506,934	$ 2,054,634
NET CHANGE IN FUND BALANCE	$ (1,895,068)	$ 447,386	$ 2,342,454
FUND BALANCE - OCTOBER 1, 2019	7,140,585	7,140,585	
FUND BALANCE - SEPTMEBER 30, 2020	$ 5,245,517	$ 7,587,971	$ 2,342,454

See accompanying independent auditor’s report.

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FALLBROOK UTILITY DISTRICT

SUPPLEMENTARY INFORMATION REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

SEPTEMBER 30, 2020

FALLBROOK UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the Rate Order approved August 1, 2020.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	$ 10.00	3,000	N	$ 1.00	3,001 to 6,000
				$ 1.25	6,001 to 10,000
				$ 1.50	10,001 to 20,000
				$ 2.25	20,001 to 50,000
				$ 2.50	50,001 and up
WASTEWATER:	$ 28.13	10,000	N	$ 1.00	10,001 to 20,000
				$ 1.50	20,001 and up
SURCHARGE:					
Regional Water Authority Fees			N	$ 3.62	All

District employs winter averaging for wastewater usage? ______ Yes X No

Total monthly charges per 10,000 gallons usage: Water: $18.00 Wastewater: $28.13 Surcharge: $36.20 Total: $82.33

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered			x 1.0	
≤¾"	1,856	1,821	x 1.0	1,821
1"	20	20	x 2.5	50
1½"	8	5	x 5.0	25
2"	35	30	x 8.0	240
3"	1	1	x 15.0	15
4"	2	2	x 25.0	50
6"			x 50.0	
8"	1	1	x 80.0	80
10"			x 115.0	
Total Water Connections	1,923	1,880		2,281
Total Wastewater Connections	1,922	1,867	x 1.0	1,867

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

Gallons pumped into system:	231,843,000	Water Accountability Ratio 97.2% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	187,171,000	
Gallons sold:	38,178,000	To: Harris County Municipal Utility District Nos. 321 and 406

FALLBROOK UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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

Does the District have Debt Service standby fees? Yes ___ No _X_

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes _X_ No ___

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ___ Partly ___ Not at all _X_

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

Entirely _X_ Partly ___ Not at all ___

ETJ's in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes ___ No _X_

See accompanying independent auditor's report.

FALLBROOK UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

PROFESSIONAL FEES:		
Auditing	$	18,925
Engineering		52,340
Legal		98,917
TOTAL PROFESSIONAL FEES	$	170,182
CONTRACTED SERVICES:		
Bookkeeping	$	23,422
Operations and Billing		96,593
Security		129,076
Solid Waste Disposal		352,425
TOTAL CONTRACTED SERVICES	$	601,516
UTILITIES:		
Electricity	$	238,225
Telephone		19,189
TOTAL UTILITIES	$	257,414
REPAIRS AND MAINTENANCE	$	479,038
ADMINISTRATIVE EXPENDITURES:		
Director Fees	$	31,650
Insurance		29,608
Office Supplies and Postage		66,424
Payroll Taxes		6,814
Travel and Meetings		15,763
Other		1,434
TOTAL ADMINISTRATIVE EXPENDITURES	$	151,693

See accompanying independent auditor’s report.

FALLBROOK UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

CAPITAL OUTLAY:		
Capitalized Assets	$	13,869
Expenditures Not Capitalized		
TOTAL CAPITAL OUTLAY	$	13,869
OTHER EXPENDITURES:		
Chemicals	$	73,510
Laboratory Fees		34,452
Permit Fees		14,059
Regional Water Authority Assessments		704,913
Regulatory Assessment		6,288
TOTAL OTHER EXPENDITURES	$	833,222
TOTAL EXPENDITURES	$	2,506,934

See accompanying independent auditor's report.

FALLBROOK UTILITY DISTRICT
INVESTMENTS
SEPTEMBER 30, 2020

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
GENERAL FUND					
TexPool	XXXX0002	Varies	Daily	$ 7,192,421	$ - 0 -
DEBT SERVICE FUND					
TexPool	XXXX0001	Varies	Daily	$ 239,633	$ - 0 -
TOTAL - ALL FUNDS				$ 7,432,054	$ - 0 -

See accompanying independent auditor's report.

FALLBROOK UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE - OCTOBER 1, 2019	$ 17,773		$ 40,745	
Adjustments to Beginning Balance	(601)	$ 17,172	(1,281)	$ 39,464
Original 2019 Tax Levy	$ 234,615		$ 434,037	
Adjustment to 2019 Tax Levy	25,886	260,501	47,890	481,927
TOTAL TO BE ACCOUNTED FOR		$ 277,673		$ 521,391
TAX COLLECTIONS:				
Prior Years	$ 8,094		$ 17,642	
Current Year	252,440	260,534	467,015	484,657
TAXES RECEIVABLE - SEPTEMBER 30, 2020		$ 17,139		$ 36,734
TAXES RECEIVABLE BY YEAR:				
2019		$ 8,061		$ 14,912
2018		1,981		4,183
2017		1,258		2,265
2016		1,241		2,605
2015		1,007		2,215
2014		486		1,215
2013		512		1,366
2012		444		1,187
2011		356		950
2010		265		708
2009		266		711
2008		266		664
2007		202		567
2006		176		527
2005		186		596
2004 and prior		432		2,063
TOTAL		$ 17,139		$ 36,734

See accompanying independent auditor’s report.

FALLBROOK UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	2019	2018	2017	2016
PROPERTY VALUATIONS:				
Land	$ 75,604,818	$ 53,752,274	$ 52,368,176	$ 52,709,200
Improvements	228,379,297	234,388,474	231,352,266	193,928,850
Personal Property	25,385,344	25,377,028	23,820,111	24,514,073
Exemptions	(68,868,185)	(65,679,005)	(70,643,896)	(54,905,453)
TOTAL PROPERTY VALUATIONS	$ 260,501,274	$ 247,838,771	$ 236,896,657	$ 216,246,670
TAX RATES PER $100 VALUATION:				
Debt Service	$ 0.185	$ 0.19	$ 0.18	$ 0.21
Maintenance**	0.100	0.09	0.10	0.10
TOTAL TAX RATES PER $100 VALUATION	$ 0.285	$ 0.28	$ 0.28	$ 0.31
ADJUSTED TAX LEVY*	$ 742,428	$ 693,949	$ 663,311	$ 670,365
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	96.91 %	99.11 %	99.47 %	99.43 %

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

** Maintenance tax – Maximum tax rate of $0.10 per $100 of assessed valuation was approved by voters on January 8, 1997.

See accompanying independent auditor's report.

FALLBROOK UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2020

	SERIES - 2013		
Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2021	$ 25,000	$ 1,750	$ 26,750
2022	25,000	1,250	26,250
2023	25,000	750	25,750
2024	25,000	250	25,250
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
	$ 100,000	$ 4,000	$ 104,000

See accompanying independent auditor's report.

FALLBROOK UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2020

	SERIES-2020 REFUNDING		
Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2021	$ 260,000	$ 103,900	$ 363,900
2022	265,000	98,650	363,650
2023	275,000	93,250	368,250
2024	295,000	84,600	379,600
2025	335,000	72,000	407,000
2026	355,000	58,200	413,200
2027	370,000	47,400	417,400
2028	385,000	39,850	424,850
2029	370,000	32,300	402,300
2030	365,000	24,950	389,950
2031	360,000	17,700	377,700
2032	355,000	10,550	365,550
2033	350,000	3,500	353,500
	$ 4,340,000	$ 686,850	$ 5,026,850

See accompanying independent auditor's report.

FALLBROOK UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2020

Due During Fiscal Years Ending September 30	ANNUAL REQUIREMENTS FOR ALL SERIES Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	$ 285,000	$ 105,650	$ 390,650
2022	290,000	99,900	389,900
2023	300,000	94,000	394,000
2024	320,000	84,850	404,850
2025	335,000	72,000	407,000
2026	355,000	58,200	413,200
2027	370,000	47,400	417,400
2028	385,000	39,850	424,850
2029	370,000	32,300	402,300
2030	365,000	24,950	389,950
2031	360,000	17,700	377,700
2032	355,000	10,550	365,550
2033	350,000	3,500	353,500
	$ 4,440,000	$ 690,850	$ 5,130,850

See accompanying independent auditor's report.

FALLBROOK UTILITY DISTRICT
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Description	Original Bonds Issued	Bonds Outstanding October 1, 2019
Fallbrook Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds-Series 2010	$ 3,185,000	$ 2,585,000
Fallbrook Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds-Series 2013	2,200,000	2,125,000
Fallbrook Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds-Series 2020	4,340,000	
TOTAL	$ 9,725,000	$ 4,710,000

Bond Authority:	Tax Bonds
Amount Authorized by Voters	$ 20,000,000
Amount Issued	15,755,000
Remaining to be Issued	$ 4,245,000

Debt Service Fund cash and investment balances as of September 30, 2020:	$ 285,318
Average annual debt service payment (principal and interest) for remaining term of all debt:	$ 394,681

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

See accompanying independent auditor's report.

Current Year Transactions				
	Retirements			
Bonds Sold	Principal	Interest	Bonds Outstanding September 30, 2020	Paying Agent
$	$ 2,585,000	$ 54,462	$ - 0 -	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	2,025,000	32,600	100,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
4,340,000		44,671	4,340,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
$ 4,340,000	$ 4,610,000	$ 131,733	$ 4,440,000	

See accompanying independent auditor's report.

FALLBROOK UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	$ 260,534	$ 218,430	$ 232,896
Payments in Lieu of Taxes	17,616	17,616	17,616
Sales Tax Receipts	404,530	514,880	587,678
Water Service	635,104	463,551	423,925
Wastewater Service	825,260	820,147	741,857
Regional Water Authority Fees	676,472	661,438	582,993
Penalty and Interest	29,913	44,125	39,305
Tap Connection and Inspection Fees	8,840	10,490	35,730
Investment Revenues	63,094	151,902	102,491
Miscellaneous Revenues	32,957	46,804	36,399
TOTAL REVENUES	$ 2,954,320	$ 2,949,383	$ 2,800,890
EXPENDITURES			
Professional Fees	$ 170,182	$ 153,308	$ 153,878
Contracted Services	601,516	614,316	581,553
Utilities	257,414	249,693	234,450
Repairs and Maintenance	479,038	359,248	305,056
Regional Water Authority Assessments	704,913	640,627	630,558
Other	280,002	342,805	362,586
Capital Outlay	13,869	384,606	460,241
TOTAL EXPENDITURES	$ 2,506,934	$ 2,744,603	$ 2,728,322
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 447,386	$ 204,780	$ 72,568
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	$	$	$
Capital Contributions			
TOTAL OTHER FINANCING SOURCES (USES)	$ - 0 -	$ - 0 -	$ - 0 -
NET CHANGE IN FUND BALANCE	$ 447,386	$ 204,780	$ 72,568
BEGINNING FUND BALANCE	7,140,585	6,935,805	6,863,237
ENDING FUND BALANCE	$ 7,587,971	$ 7,140,585	$ 6,935,805

See accompanying independent auditor's report.

2017	2016	2020	2019	2018	2017	2016
		Percentage of Total Revenues				
$ 209,879	$ 204,353	8.8 %	7.4 %	8.3 %	7.2 %	7.8 %
17,616	17,678	0.6	0.6	0.6	0.6	0.7
518,937	524,394	13.7	17.5	21.0	17.8	19.9
511,030	460,566	21.5	15.7	15.1	17.6	17.5
859,123	795,108	28.0	27.8	26.5	29.6	30.2
615,220	554,029	22.9	22.4	20.8	21.2	21.0
50,025	48,372	1.0	1.5	1.4	1.7	1.8
74,465	7,200	0.3	0.4	1.3	2.6	0.3
28,808	10,653	2.1	5.1	3.7	1.0	0.4
21,280	10,604	1.1	1.6	1.3	0.7	0.4
$ 2,906,383	$ 2,632,957	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
$ 135,500	$ 160,857	5.8 %	5.2 %	5.5 %	4.7 %	6.1 %
596,151	600,775	20.4	20.8	20.8	20.5	22.8
262,449	288,909	8.7	8.5	8.4	9.0	11.0
224,903	214,252	16.2	12.2	10.9	7.7	8.1
481,303	532,919	23.9	21.7	22.5	16.6	20.2
372,935	353,666	9.5	11.6	12.9	12.8	13.4
387,380	634,202	0.5	13.1	16.4	13.3	24.1
$ 2,460,621	$ 2,785,580	85.0 %	93.1 %	97.4 %	84.6 %	105.7 %
$ 445,762	$ (152,623)	15.0 %	6.9 %	2.6 %	15.4 %	(5.7) %
$ 533,593	$					
1,376,145						
$ 1,909,738	$ - 0 -					
$ 2,355,500	$ (152,623)					
4,507,737	4,660,360					
$ 6,863,237	$ 4,507,737					

See accompanying independent auditor’s report.

FALLBROOK UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	$ 484,657	$ 460,372	$ 420,907
Penalty and Interest	31,101	25,862	17,585
Investment Revenues	2,614	7,322	4,495
Miscellaneous Revenues	7,399	63	
TOTAL REVENUES	$ 525,771	$ 493,619	$ 442,987
EXPENDITURES			
Tax Collection Expenditures	$ 50,462	$ 48,847	$ 45,937
Debt Service Principal	250,000	235,000	225,000
Debt Service Interest and Fees	132,233	173,400	179,600
Bond Issuance Costs	164,836		
TOTAL EXPENDITURES	$ 597,531	$ 457,247	$ 450,537
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ (71,760)	$ 36,372	$ (7,550)
OTHER FINANCING SOURCES (USES)			
Refunding Bonds	$ 4,340,000	$	$
Payment to Refunded Bond Escrow Agent	(4,373,678)		
Bond Premium	201,440		
TOTAL OTHER FINANCING SOURCES (USES)	$ 167,762	$ - 0 -	$ - 0 -
NET CHANGE IN FUND BALANCE	$ 96,002	$ 36,372	$ (7,550)
BEGINNING FUND BALANCE	190,769	154,397	161,947
ENDING FUND BALANCE	$ 286,771	$ 190,769	$ 154,397
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,880	1,879	1,869
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,867	1,876	1,868

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2017	2016	2020	2019	2018	2017	2016
$ 440,874	$ 451,017	92.2 %	93.3 %	95.0 %	95.9 %	96.1 %
15,553	16,710	5.9	5.2	4.0	3.4	3.6
1,997	597	0.5	1.5	1.0	0.4	0.1
1,396	961	1.4			0.3	0.2
$ 459,820	$ 469,285	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
$ 41,824	$ 41,642	9.6 %	9.9 %	10.4 %	9.1 %	8.9 %
215,000	360,000	47.5	47.6	50.8	46.8	76.7
185,800	193,250	25.2	35.1	40.5	40.4	41.2
		31.4				
$ 442,624	$ 594,892	113.7 %	92.6 %	101.7 %	96.3 %	126.8 %
$ 17,196	$ (125,607)	(13.7) %	7.4 %	(1.7) %	3.7 %	(26.8) %
$	$					
$ - 0 -	$ - 0 -					
$ 17,196	$ (125,607)					
144,751	270,358					
$ 161,947	$ 144,751					
1,890	1,875					
1,879	1,863					

See accompanying independent auditor's report.

FALLBROOK UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2020

District Mailing Address - Fallbrook Utility District
c/o Schwartz, Page & Harding, L.L.P.
1300 Post Oak Blvd., Suite 1400
Houston, TX 77056-3078

District Telephone Number - (713) 623-4531

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended September 30, 2020	Expense Reimbursements for the year ended September 30, 2020	Title
Linda S. Watkins	05/18 05/22 (Elected)	$ 7,050	$ 2,653	President
James E. McClure	05/20 05/24 (Elected)	$ 7,200	$ 7,797	Vice President
Joyce K. King	05/18 05/22 (Elected)	$ 4,050	$ 965	Secretary
Annie V. Freeman	04/19 05/22 (Appointed)	$ 7,200	$ 2,424	Assistant Secretary
Gilbert M. Miranda, Jr.	05/20 05/24 (Elected)	$ 7,200	$ 3,599	Assistant Secretary

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

Submission date of most recent District Registration Form: September 3, 2020.

The limit on Fees of Office that a Director may receive during a fiscal year is $7,200 as set by Board Resolution (TWC Section 49.060) on July 21, 2003. Fees of Office are the amounts paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

FALLBROOK UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2020

Consultants:	Date Hired	Fees for the year ended September 30, 2020	Title
Schwartz, Page & Harding, L.L.P.	03/01/10	$ 98,916 $ 35,465	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	09/16/92	$ 20,425	Auditor
District Data Services, Inc.	01/01/77	$ 23,422	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP	04/15/96	$ 11,341	Delinquent Tax Attorney
Brown & Gay Engineers, Inc.	09/15/03	$ 86,359	Engineer
Masterson Advisors LLC	04/16/18	$ 45,589	Financial Advisor
WWWMS, Inc.	05/01/00	$ 422,143	Operator
Assessments of the Southwest, Inc.	10/01/01	$ 30,392	Tax Assessor/ Collector
Stephanie Viator	05/17/10	$ -0-	Investment Officer
Wendy Austin	05/17/10	$ -0-	Investment Officer

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _________

Risk Premium: $__________
Member Surplus Contribution: $ _________
Total Insurance Payment: $_________

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ____

Authorized Officer

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)