

IN THE OPINION OF SPECIAL TAX COUNSEL, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS IS EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF SPECIAL TAX COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. SPECIAL TAX COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE "TAX MATTERS" HEREIN.

The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations" herein.

NEW ISSUE—BOOK-ENTRY ONLY
CUSIP No. 461259

**RATINGS: Underlying "BBB+" S&P
Insured "AA" (stable outlook) S&P**

See "MUNICIPAL BOND RATING" and "BOND INSURANCE" herein

\$3,140,000

INVERNESS FOREST IMPROVEMENT DISTRICT
(A political subdivision of the State of Texas, located in Harris County, Texas)
COMBINATION UNLIMITED TAX AND REVENUE REFUNDING BONDS
SERIES 2022

Dated: February 1, 2022

Due: March 1 (as shown below)

Interest on the Bonds (the "Bonds" or the "Series 2022 Refunding Bonds") will accrue from February 1, 2022, and will be payable on September 1 and March 1 of each year, commencing September 1, 2022. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas. See "THE BONDS."

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



MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield to Maturity(a)</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield to Maturity(a)</u>
\$185,000	2023	3.00%	0.63%	\$215,000	2027	3.00%	1.36%
\$190,000	2024	3.00%	0.86%	\$220,000	2028	3.00%	1.55%
\$195,000	2025	3.00%	1.05%	\$225,000	2029	3.00%	1.68%
\$205,000	2026	3.00%	1.21%	\$230,000	2030	3.00%	1.75%

\$245,000 3.00% Term Bond Due March 1, 2033 to Yield 2.00% (a) (b) (c)
 \$250,000 3.00% Term Bond Due March 1, 2035 to Yield 2.13% (a) (b) (c)
 \$270,000 3.00% Term Bond Due March 1, 2037 to Yield 2.22% (a) (b) (c)
 \$290,000 3.00% Term Bond Due March 1, 2039 to Yield 2.28% (a) (b) (c)
 \$420,000 3.00% Term Bond Due March 1, 2042 to Yield 2.37% (a) (b) (c)

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined) and may be subsequently changed.
- (b) The Bonds maturing on or after March 1, 2031, are subject to redemption in whole or from time to time in part, at the option of the District (herein defined), on March 1, 2030, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds are redeemed, the Bonds to be redeemed shall be selected, on behalf of the District, by the Paying Agent/Registrar, in its capacity as Registrar, by lot or other customary method, in integral multiples of \$5,000 in any one maturity. See "THE BONDS—Optional Redemption."
- (c) Subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Mandatory Redemption."

The proceeds of the Bonds will be used by Inverness Forest Improvement District (the "District"), together with certain legally available funds of the District, to refund certain of the District's outstanding bonds and to pay certain costs associated with the issuance of the Bonds. See "PLAN OF FINANCING." The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount levied against all taxable property within the District; additionally, the bonds are secured by a pledge of the Net Revenues of the System all as defined herein. See "THE BONDS – Source of and Security for Payment." The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, or the City of Houston, is pledged to the payment of the principal of or interest on the Bonds. **The Bonds are subject to certain risk factors described under the caption "RISK FACTORS."**

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Radcliffe Bobbitt Adams Polley PLLC, Houston, Texas, Bond Counsel. Certain Legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe, Houston, Texas, Special Tax Counsel. Certain other matters will be passed upon for the Underwriter by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas as Underwriters' Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about February 24, 2022.

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT.....	1
SALE AND DISTRIBUTION OF THE BONDS.....	1
CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12.....	2
MUNICIPAL BOND RATING.....	3
BOND INSURANCE.....	3
OFFICIAL STATEMENT SUMMARY.....	6
DEBT SERVICE REQUIREMENTS.....	9
INTRODUCTION.....	10
RISK FACTORS.....	10
PLAN OF FINANCING.....	19
THE DISTRICT.....	21
THE SYSTEM.....	25
MANAGEMENT OF THE DISTRICT.....	27
DISTRICT INVESTMENT POLICY.....	27
DISTRICT DEBT.....	28
DISTRICT TAX DATA.....	29
TAXING PROCEDURES.....	31
ANNEXATION AND CONSOLIDATION.....	34
THE BONDS.....	35
BOOK-ENTRY-ONLY SYSTEM.....	38
TAX MATTERS.....	40
LEGAL MATTERS.....	41
REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS.....	41
OFFICIAL STATEMENT.....	42
MISCELLANEOUS.....	42
AUDITED FINANCIAL STATEMENTS OF THE DISTRICT.....	A
SPECIMEN MUNICIPAL BOND INSURANCE POLICY.....	B

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not constitute and is not authorized by the District for use in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not registered or qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, resolutions, contracts, audited financial statements, and engineering and other related reports set forth in this Official Statement are made subject to the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, upon payment of duplication costs.

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 that they will be realized. Any information and expressions of opinion herein contained are subject to change and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in the Official Statement until delivery of the Bonds to the Underwriter and thereafter only as specified in the "OFFICIAL STATEMENT – Updating of Official Statement."

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

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 final official statement for any purpose.

SALE AND DISTRIBUTION OF THE BONDS

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the "Underwriter") pursuant to a proposal submitted to the District at a price of \$3,316,610.15 which represents the principal amount of the Bonds \$3,140,000.00 plus an original issue premium of \$198,370.35 less an Underwriters' discount of \$21,760.20 plus accrued interest on the Bonds from the Dated Date to the date of delivery. Such price produces a net effective interest rate of 2.348145%.

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

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

Prices and Marketability

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

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

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission (“SEC”) under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12

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 (“MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system for information filing.

Annual Reports

The information to be updated with respect to the District includes all quantitative financial information and operating data of the District of the general type included in this Official Statement included under the headings “TAX DATA” and “APPENDIX A” (Audited Financial Statements of the District). The District will update and provide this information within six (6) months after the end of each of its fiscal years ending in or after 2021. The District will provide the updated information to EMMA. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, the District shall provide unaudited financial statements for the applicable fiscal year to each EMMA within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond 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 is December 31. Accordingly, it must provide updated information by June 30 in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will notify EMMA of the change.

Event Notices

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

The District has agreed to provide the foregoing updated information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB at: <https://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 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 the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the Outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five (5) years, the District has complied in all material respects with its continuing disclosure agreements previously made in accordance with the Rule.

MUNICIPAL BOND RATING

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

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

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and

scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On October 20, 2021, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 8, 2021, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

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

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Capitalization of AGM

At September 30, 2021:

- The policyholders' surplus of AGM was approximately \$2,910 million.
- The contingency reserve of AGM was approximately \$963 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,124 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE").

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (filed by AGL with the SEC on February 26, 2021);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021 (filed by AGL with the SEC on May 7, 2021);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 (filed by AGL with the SEC on August 6, 2021); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021 (filed by AGL with the SEC on November 5, 2021).

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

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

Miscellaneous Matters

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

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

THE BONDS

- Description:** \$3,140,000 Unlimited Tax Refunding Bonds, Series 2022, are dated February 1, 2022. The Bonds are fully registered serial bonds maturing on March 1, as reflected on the cover page of this Official Statement. See "THE BONDS."
- Book-Entry-Only System:** The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."
- Source of Payment:** The Bonds are payable from a continuing, direct, annual ad valorem tax upon all taxable property within the District which, under Texas law, is not limited as to rate or amount. Furthermore, the Bonds are payable from and secured by certain Net Revenues, if any, of the District's water, and wastewater (the "System"). The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any other political subdivision or agency. See "THE BONDS - Source of and Security for Payment."
- Redemption Provisions:** The Bonds are subject to early redemption, in whole or in part, on March 1, 2030, or on any date thereafter at the option of the District at a price of par plus accrued interest to the date of redemption. See "THE BONDS- Optional Redemption." The Bonds maturing on March 1 in the years 2033, 2035, 2037, 2039 and 2042 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning on March 1 in the years 2031, 2034, 2036, 2038 and 2040 respectively. See "THE BONDS – Mandatory Redemption."
- Plan of Financing:** Proceeds from the sale of the Bonds will be used to pay bond issuance and administrative expenses and to currently refund certain of the District's outstanding bonds in order to achieve present value savings in the District's debt service expense. See "PLAN OF FINANCING."
- Legal Opinions:** Radcliffe Bobbitt Adams Polley PLLC, Bond Counsel, Houston, Texas and Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel Houston Texas. See "LEGAL MATTERS" and "TAX MATTERS."
- Verification Agent:** Robert Thomas CPA, LLC.
- Payment Record:** The District has never defaulted on the payment of principal or interest on any of its bonds.
- Risk Factors:** The Bonds are subject to certain investment considerations, as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds, including particularly the sections captioned "RISK FACTORS."
- Qualified Tax Exempt Obligations:** The District designated the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986 and represents that the total amount of tax-exempt bonds (including the Bonds) issued by the District during calendar year 2022 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations."
- Municipal Bond Rating:** In connection with the sale of the Bonds, the District has made application to S&P which assigned the underlying rating of "BBB+" on the Bonds based upon the District's underlying credit without bond insurance. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P, and the District makes no representation as to the appropriateness of such rating. See "MUNICIPAL BOND RATING."
- Municipal Bond Insurance & Rating:** S&P is expected to assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by AGM. See "BOND INSURANCE," "MUNICIPAL BOND RATING," and "APPENDIX B – Specimen Municipal Bond Insurance Policy."

THE DISTRICT

- Description:** The District originally contained approximately 473 acres. Since 1965, four separate annexations have increased the amount of land within the District to approximately 705 acres. The District is located in north Harris County, approximately 20 miles north of the City of Houston's (the "City") central business district, and

lies wholly within the exclusive extraterritorial jurisdiction of the City. The District is generally bounded on the north by Cypress Creek, approximately 1 mile east of the intersections of FM 1960 and Interstate Highway 45, and approximately generally just to the west of the Hardy Toll Road. The District is bisected by FM 1960. See “THE DISTRICT – Description.”

Authority: The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to water control and improvement district, including particularly Chapters 49 and 51 of the Texas Water Code, as amended. See “THE DISTRICT – Authority.”

Summary of Land Use: A summary of the approximate land use in the District appears in the following table:

<u>Type of Land Use</u>	<u>Approximate Acres</u>
Developed and Improved Acres	310
Acres Currently being Developed	0
Acres Remaining to be Developed (a)	62
Undevelopable Acres (b)	<u>333</u>
Total Approximate Acres	705

- (a) Includes 55 acres south of FM1960 that will most likely be developed for commercial/industrial purposes and approximately 7 acres located in the residential portion of the District that may be developed for single family purposes in the future.
- (b) Includes drainage facilities and easements, detention ponds, road rights-of-way, railroad rights of way, a county park and community association sites, District plant sites, and other land that will not be developed with taxable improvements in the future.

Status of Development: The District currently includes 462 completed homes, 0 homes under construction, and 0 vacant developed lots. All of the residential development in the District is located within the Inverness Forest subdivision. At the present, there this is a 272-unit multi-family project located on approximately 12 acres that was constructed in the District in 1994. The commercial/industrial development in the District currently includes buildings totaling approximately 350,000 square feet of building development. See “THE DISTRICT.”

Population: Approximately 2,100 (estimated population in the District as of February 1, 2021).

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. The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions. See “RISK FACTORS – Infectious Disease Outlook (COVID-19)”.

SELECTED FINANCIAL INFORMATION
(Unaudited)

2021 Taxable Valuation	\$195,806,348	(a)
Direct Debt		
Outstanding Bonds as of January 1, 2021	\$175,000	(b)
The Bonds	<u>\$3,140,000</u>	
Total Direct Debt	\$3,315,000	
Estimated Overlapping Debt	<u>\$9,102,838</u>	(c)
Direct and Estimated Overlapping Debt	\$12,417,838	
Percentage of Direct Debt to:		
2021 Taxable Valuation	1.69%	
(See "District Debt")		
Percentage of Direct and Estimated Overlapping Debt to:		
2021 Taxable Valuation	6.34%	
(See "District Debt")		
2021 Tax Rate Per \$100 of Assessed Value		
Debt Service Tax	\$0.17	
Maintenance Tax	<u>\$0.26</u>	
Total 2021 Tax Rate	\$0.43	
Pro-Forma Cash and Investment Balances as of November 16, 2021		
General Fund	\$2,179,986	(d)
Debt Service Fund	\$296,089	(d)

-
- (a) Reflects data supplied by Harris County Appraisal District ("HCAD"). The figure above includes the value of property that has been fully certified by HCAD but excludes HCAD's estimated of value of property that is in the process of being certified (\$11,717,455). See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Excludes the Refunded Bonds. See "PLAN OF FINANCING – Currently Outstanding Bonds."
- (c) See "DISTRICT DEBT – Estimated Overlapping Debt."
- (d) Approximate unaudited figures. The figure above represents balance prior to the collection of any significant amount of the District's 2021 tax levy. Neither Texas law nor the District's Bond Orders require that the District maintain any particular balance in the Debt Service Fund. See "DISTRICT TAX DATA - Tax Adequacy of Tax Revenue."

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds less the debt service on the Refunded Bonds plus the debt service on the Series 2022 Refunding Bonds.

<u>Year</u>	<u>Existing Debt Service Requirements</u>	<u>Less: Debt Service on Refunded Bonds</u>	<u>Debt Service on the Series 2022 Bonds</u>		<u>Total Debt Service Requirements</u>
			<u>Principal</u>	<u>Interest</u>	
2022	\$288,237	\$111,050		\$54,950	\$232,137
2023	\$288,575	\$288,575	\$185,000	\$91,425	\$276,425
2024	\$288,325	\$288,325	\$190,000	\$85,800	\$275,800
2025	\$287,700	\$287,700	\$195,000	\$80,025	\$275,025
2026	\$291,600	\$291,600	\$205,000	\$74,025	\$279,025
2027	\$294,806	\$294,806	\$215,000	\$67,725	\$282,725
2028	\$292,500	\$292,500	\$220,000	\$61,200	\$281,200
2029	\$289,887	\$289,888	\$225,000	\$54,525	\$279,524
2030	\$291,868	\$291,869	\$230,000	\$47,700	\$277,699
2031	\$57,700	\$57,700		\$44,250	\$44,250
2032	\$175,600	\$175,600	\$120,000	\$42,450	\$162,450
2033	\$176,312	\$176,313	\$125,000	\$38,775	\$163,774
2034	\$171,937	\$171,938	\$125,000	\$35,025	\$160,024
2035	\$167,562	\$167,563	\$125,000	\$31,275	\$156,274
2036	\$163,187	\$163,188	\$125,000	\$27,525	\$152,524
2037	\$183,000	\$183,000	\$145,000	\$23,475	\$168,475
2038	\$177,000	\$177,000	\$145,000	\$19,125	\$164,125
2039	\$171,000	\$171,000	\$145,000	\$14,775	\$159,775
2040	\$165,000	\$165,000	\$140,000	\$10,500	\$150,500
2041	\$159,000	\$159,000	\$140,000	\$6,300	\$146,300
2042	<u>\$153,000</u>	<u>\$153,000</u>	<u>\$140,000</u>	<u>\$2,100</u>	<u>\$142,100</u>
TOTAL	\$4,533,796	\$4,356,615	\$3,140,000	\$912,950	\$4,230,131

Maximum Annual Debt Service Requirements (2027)..... \$282,725

\$0.16 Tax Rate on 2021 Taxable Valuation of \$195,806,348
 @ 95% collections produces.....\$297,626

See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

OFFICIAL STATEMENT

relating to

\$3,140,000

INVERNESS FOREST IMPROVEMENT DISTRICT

(A political subdivision of the State of Texas
located within Harris County, Texas)
**UNLIMITED TAX AND REVENUE REFUNDING BONDS
SERIES 2022**

INTRODUCTION

This Official Statement provides certain information in connection with the issuance of the \$3,140,000 Inverness Forest Improvement District Unlimited Tax and Revenue Refunding Bonds, Series 2022 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, particularly Chapters 49 and 51 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, an order (the "Bond Order") adopted by the Board of Directors of Inverness Forest Improvement District (the "District"), an election held within the District, and Houston Consent Ordinance No. 97 - 416.

This Official Statement includes descriptions of the Bonds, the Bond Order and certain information about the District and its financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Bond Counsel upon payment of duplication costs thereof.

RISK FACTORS

General

The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any other political subdivision. The Bonds are payable from a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District; additionally, the bonds are secured by a pledge of the Net Revenues of the District's System all as defined and further described herein. See "THE BONDS – Source of and Security for Payment." The investment quality of the Bonds depends on the ability of the District to collect all taxes levied against the taxable property within the District and, in the event of foreclosure of the District's tax lien, on the marketability of the property and the ability of the District to sell the property at a price sufficient to pay taxes levied by the District and by other overlapping taxing authorities. The District cannot and does not make any representations that over the life of the Bonds the taxable property within the District will accumulate or maintain taxable values sufficient to justify the continued payment of taxes by property owners.

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. The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

Marketability

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

Tax Collections Limitations

The District's ability to make debt service payments could 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 could be impaired by market conditions limiting the proceeds from a foreclosure sale of taxable property and collection procedures. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. The costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a federal 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 "TAXING 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 of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order 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 may not waive the local government's sovereign immunity from suits for money damages. Even if such sovereign immunity were waived and a judgment against the District for money damages was obtained, the judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

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

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

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

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect

Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against the district.

Approval of the Bonds

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

Economic Factors

The Houston metropolitan area has in the past experienced increased unemployment, business failures and slow absorption of office space. These factors, if they reoccur, could affect the demand for residential homes and hence adversely affect property values in the District. An oversupply of homes, along with a decreased demand in new housing because of general economic conditions or relatively high interest rates, may have an adverse impact on sale prices for homes and, consequently, may materially adversely affect property values.

The Houston-area economy may be particularly affected by the oil and natural gas industry, and continued low prices could adversely affect values of homes in the Houston-area real estate market. The District cannot predict what effect low oil and natural gas prices may have on the Houston-area real estate market.

Potential Effects of Oil Price Fluctuations on the Houston Area

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

Recently, unprecedented volatility in the oil and gas industry due to the unused supply of oil as a result of COVID-19 stay-at-home orders and other mitigation efforts resulted in historic low prices in a key segment of the nation's oil trading. Adverse developments in economic conditions, particularly in the oil and gas industry, could adversely impact the businesses of taxpayers and the property values in the District, resulting in less local tax revenue. See "RISK FACTORS – Infectious Disease Outlook – COVID-19." Texas may be particularly at risk from any global slowdown in the oil and gas industry, given the prevalence of international trade in Texas and the risk of contraction in the oil and gas industry and spillover effects into other industries. Should oil prices remain depressed over a long period of time or other adverse developments in economic conditions were to occur, particularly in the oil and gas industry, these businesses could be adversely impacted.

Future Debt

After the issuance of the Bonds, the District has \$4,810,000 authorized but unissued combination unlimited tax and revenue bonds which may be issued for purposes of constructing facilities to serve the District and \$9,290,000 (preliminary, subject to change) of such bonds which may be issued for refunding purposes. All such bonds that will remain authorized but unissued can be issued subject to the approval of the Attorney General of the State of Texas and in the case of new money bonds, subject to the approval of the TCEQ.

The District has the right to issue all such bonds, as may hereafter be approved by the Board, subject to the approval of the Attorney General of the State of Texas, and in the case of new money bonds, subject to the approval of the TCEQ. Any such additional new money bonds and refunding bonds would be issued on a parity with the Bonds. Any future new money bonds to be issued by the District must also be approved by the TCEQ. According to the Engineer, such bond authorization should be adequate to finance the District's share of development costs to allow for the full development of land within the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds described above which have heretofore been authorized by the voters of the District, may be issued by the District from time to time as needed. If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

Continuing Compliance with Certain Covenants

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

Financing Parks and Recreational Facilities

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of recreational facilities bonds by the qualified voters in the District; (c) approval of the park project and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District, unless effective June 14, 2021, the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent but not three percent of the value of the taxable property in the District.

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

Environmental Regulation

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 dredged 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 non-stormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

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

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters

that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR became effective June 22, 2020, and is currently the subject of ongoing litigation.

On June 9, 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. On November 18, 2021, the EPA and USACE issued a Notice of Proposed Rulemaking to put back into place the pre-2015 definition of “Waters of the United State.” 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.

Conversion to Surface Water

The District is within the boundaries of the Harris-Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in areas within the Subsidence District’s jurisdiction. In furtherance of the Subsidence District’s mandate to reduce groundwater pumpage and convert to surface water, the Central Harris County Regional Water Authority (the “Authority”) was created with the responsibility of, among other things, reducing groundwater usage in and providing surface water to permittees, including the District, within its boundaries. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to surface water. The District is included within the Authority’s GRP.

The Authority has entered into a contract with the City of Houston for the purchase of treated surface water. Additionally, the Authority has entered into an agreement with the North Harris County Regional Water Authority (“NHCRWA”) for the joint financing, design, construction, operation and maintenance of water transmission facilities.

Under the Subsidence District regulations and the GRP, the Authority was required to limit groundwater withdrawals to no more than 70% of the total water demand within the Authority’s GRP by January 2010. Additionally, the Subsidence District requires that the Authority limit groundwater withdrawals to no more than 40% of the total water demand within the Authority’s GRP beginning in 2025 and further limits groundwater withdrawals to no more than 20% of the total water demand within the Authority’s GRP beginning in 2035. If the Authority fails to comply with such requirements or its GRP, the Authority is subject to a \$7.00 per 1,000 gallons disincentive fee penalty (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of the maximum amount allowed by the Subsidence District. In the event of the Authority’s failure to comply with such requirements, the Authority may also seek to collect such Disincentive Fees from the District.

The Authority has the power to issue debt supported by the revenues pledged for the payment of its obligations and may establish fees, rates, and charges as necessary to accomplish its purposes. The Authority has issued bonds to finance the costs of infrastructure required to meet the 2010 groundwater reduction requirements. The Authority currently charges its members, including the District, a groundwater pumpage fee of \$4.60 per 1,000 gallons of groundwater pumped and a surface water fee of \$5.05 per 1,000 gallons of surface water purchased from the Authority.

The District cannot predict the level of fees and charges which may be imposed upon the District by the Authority in the future, but the District anticipates the need to pass such fees through to its customers through increased water rates. Additionally, the issuance of additional bonds in the future by the Authority or District in an undetermined amount may be necessary to develop additional surface water conversion infrastructure.

Bond Insurance Risk Factors

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

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

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

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

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

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

Changes in Tax Legislation

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

Severe Weather

The District is located approximately 90 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

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

Recent Winter Weather Event - Between February 14 and February 19, 2021, the State of Texas experienced a severe winter storm causing widespread, record breaking cold temperatures throughout the State. As a result of the winter storm, there were widespread disruptions to the operations of Texas electric and gas utilities, which have been widely reported in the press, and approximately four million Texas residents lost power for significant portions of the week. The power outages caused water pipes to burst, resulting in damage to many structures, and in some areas affected the safety of the public water supply for a period of time. The President declared a major disaster in the State, making disaster assistance from the Federal Emergency Management Agency ("FEMA") available to homeowners and businesses which sustained damage. The District did not experience any financial loss related to the storm. While the District continues to assess the overall impact of the storm, the District does not anticipate a material adverse impact on its operations or financial condition as a result of the storm. There are special taxing procedures for areas declared to be disaster area which could affect the amount of taxes due and when they are collected. See "TAXING PROCEDURES—Valuation of Property for Taxation" and "—Delinquent Tax Payments for Disaster Areas."

Hurricane Harvey

The Houston area, including the area in and around the District in Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. According to the observations of the District's Operator, the water, sewer, and drainage facilities serving the land within the District did not sustain any significant damage and there was no interruption of water and sewer service to the District's residents or other property owners within the District. According to the observations of the members of the District's

resident Board of Directors approximately 3 homes within the District experienced flooding as a result of Hurricane Harvey; all of the homes that flooded have been rehabilitated.

Specific Flood Type Risks

The District may be subject to the following flood risks:

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

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

Temporary Tax Exemption for Property Damaged by Disaster

The Property Tax Code (hereinafter defined) 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.

Tax Payment Installments Following Disaster

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

Harris County and City of Houston Floodplain Regulations

As a direct result of Hurricane Harvey, Harris County and the City of Houston adopted new rules and amended existing regulations relating to minimizing the potential impact of new development on drainage and mitigating flooding risks. The new and amended Harris County regulations took effect on January 1, 2018, and the new and amended City of Houston regulations took effect on September 1, 2018.

The Harris County floodplain regulations govern construction projects in unincorporated Harris County (where the District is currently located) and include regulations governing the elevation of structures in the 100-year and 500-year floodplains. Additionally, the Harris County regulations govern the minimum finished floor elevations as well as specific foundation construction requirements and windstorm construction requirements for properties located both above and below the 100-year flood elevation.

The City of Houston floodplain regulations govern construction projects in the corporate limits of the City of Houston (where land in the District is not currently located) and include regulations governing the elevation of structures in the 100-year and 500-year floodplains and the elevation of residential additions greater than one-third the footprint of the existing structure and non-residential additions. Additionally, the City of Houston regulations require an improved structure whose new market value exceeds 50% of the market value of the structure prior to the start of improvements meet the new and amended City of Houston regulations.

The new and amended Harris County and City of Houston regulations may have a negative impact on new development in and around the District as well as on the rehabilitation of existing homes impacted by flooding or other natural disasters.

Atlas 14

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a

larger area and potentially leaving less developable property within the District. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

Proposed Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the congress and in the states that, if enacted, could later or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the bonds or otherwise prevent holders of the bonds from realizing the full benefit of the tax exemption of interest on the bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Production of Net Revenues

The Net Revenues, if any, to be derived from the operation of the System are entirely dependent upon sales of water and sewer services to current and future residents and users of the System, and related operating expenses. The District does not expect that the operation of the System will produce Net Revenues sufficient to make a significant contribution, if any, to the District's future debt service requirements. An audit of the District's accounts for the fiscal year ended December 31, 2020, is included as "Appendix A" to this Official Statement. See "THE SYSTEM – General Fund Operating History."

PLAN OF FINANCING

Purpose

Proceeds of the Series 2022 Refunding Bonds are being used to refund \$1,630,000 principal amount of the Unlimited Tax and Revenue Refunding Bonds, Series 2015 (the "Series 2015 Bonds") and \$1,520,000 principal amount of the Unlimited Tax and Revenue Bonds, Series 2015A (the "Series 2015A Bonds"). The Series 2015 Bonds and the Series 2015A Bonds that are refunded are referred to herein as the "Refunded Bonds." Bond proceeds will provide for the principal and accrued interest on the Refunded Bonds from March 1, 2021, through the date redemption of the Refunded Bonds. Bond proceeds will also be used to pay certain issuance costs of the Bonds. The refunding is being implemented in order to achieve a net present value savings in the District's annual debt service expense.

Outstanding Bonds

The District has previously issued six (6) series of bonds and one (1) series of unlimited tax and revenue refunding bonds. The following table lists the original principal amount and the amount of bonds outstanding as of June 1, 2021, from such issues, (including the bonds being refunded with the proceeds of the Bonds) and the principal amount outstanding after the implementation of the refunding.

<u>Original Principal Amount</u>	<u>Series</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Outstanding After the Bonds</u>
\$600,000	1965 WW & SS Comb U/L Tax & Rev Bds	\$0	\$0
\$550,000	1968 WW & SS Comb U/L Tax & Rev Bds	\$0	\$0
\$750,000	1977 WW & SS Comb U/L Tax & Rev Bds	\$0	\$0
\$1,170,000	1984 WW & SS Comb U/L Tax & Rev Bds	\$0	\$0
\$3,330,000	2005 WW & SS Comb U/L Tax & Rev Bds	\$0	\$0
\$2,655,000	2015 WW & SS Comb U/L Tax & Rev Ref Bds	\$1,805,000	\$175,000
<u>\$1,520,000</u>	2015A WW & SS Comb U/L Tax & Rev Bds	<u>\$1,520,000</u>	<u>\$0</u>
\$10,575,000		\$3,325,000	\$175,000

Refunded Bonds

Proceeds of the Series 2022 Refunding Bonds are being used to refund the principal amounts and maturity dates of the Refunded Bonds as set forth below. The Series 2015 Refunded Bonds and the Series 2015A Refunded Bonds will be redeemed on the day of the closing of the Bonds.

<u>Year</u>	Series 2015 Comb U/L Tax & Rev Refunding Bonds Principal Amount	<u>Year</u>	Series 2015A Comb U/L Tax & Rev Bonds Principal Amount	
2023	\$180,000	2023		
2024	\$185,000	2024		
2025	\$190,000	2025		
2026	\$200,000	2026		
2027	\$210,000	2027		
2028	\$215,000	2028		
2029	\$220,000	2029		
2030	<u>\$230,000</u>	2030		
		2031		
		2032		
		2033		
		2034	\$370,000	(a)
		2035		
		2036	\$250,000	(b)
		2037		
		2038	\$300,000	(c)
		2039		
		2040	\$300,000	(d)
		2041		
		2042	<u>\$300,000</u>	(e)
TOTAL	\$1,630,000		\$1,520,000	

(a) Represents the 2034 Term Bonds with sinking fund provision beginning in 2032.

(b) Represents the 2036 Term Bonds with sinking fund provision beginning in 2035.

(c) Represents the 2038 Term Bonds with sinking fund provision beginning in 2037.

(d) Represents the 2040 Term Bonds with sinking fund provision beginning in 2039.

(e) Represents the 2042 Term Bonds with sinking fund provision beginning in 2041.

SOURCES AND USES OF FUNDS

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

SOURCES OF FUNDS:	
Principal Amount of the Bonds	\$3,140,000.00
Plus Original Issue Premium	\$198,370.35
Plus Accrued Interest	\$6,018.33
Plus District Cash	\$48,000.00
TOTAL SOURCES OF FUNDS	<u>\$3,392,388.68</u>
USES OF FUNDS:	
Deposit to Pay Refunded Bonds	\$3,203,365.70
Issuance Expenses (a)	\$161,244.45
Underwriter's Discount	\$21,760.20
Accrued Interest	\$6,018.33
TOTAL USES OF FUNDS	<u>\$3,392,388.68</u>

(a) Includes municipal bond insurance premium.

THE DISTRICT

General

The District is a water control and improvement district created by the 59th Legislature in 1965 and confirmed at an election held within the District on June 17, 1965 where a majority of the votes cast were in favor of the creation of the District. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to water control and improvement districts, particularly Chapters 49 and 51, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District is empowered to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District, if approved by the voters within the District, the TCEQ, and other governmental entities having jurisdiction, may establish, operate, and maintain a fire department independently or with one or more other conservation and reclamation districts, and provide such facilities and services to customers of the District. Under certain limited circumstances, the District is authorized to construct, develop, and maintain park and recreational facilities.

Description

Inverness Forest Improvement District originally contained approximately 473 acres. Since 1965, four separate annexations have increased the amount of land within the District to approximately 705 acres. The District is located in north Harris County, approximately 20 miles north of Houston's central business district, and lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston. The District is generally bounded on the north by Cypress Creek, approximately one mile east of the intersection of FM 1960 and Interstate 45, and approximately one-half mile to the west of the intersection of FM 1960 and the Hardy Toll Road. The District is bisected north and south by FM 1960.

Land Use in the District

<u>Type of Land Use</u>	<u>Approximate Acres</u>
Developed and Improved Acres	310
Acres Currently being Developed	0
Acres Remaining to be Developed (a)	62
Undevelopable Acres (b)	<u>333</u>
Total Approximate Acres	705

(a) Includes 55 acres south of FM1960 that will most likely be developed for commercial/industrial purposes and approximately 7 acres located in the residential portion of the District that may be developed for single family purposes in the future.

(b) Includes drainage facilities and easements, detention ponds, road rights-of-way, railroad rights of way, a county park and community association sites, District plant sites, and other land that will not be developed with taxable improvements in the future.

Residential Development within the District

Current status of homebuilding development in the District as of September 1, 2021, includes the subdivision known as Inverness Forest, Sections I – IV located on approximately 184 acres. Single family building development in the District includes 462 completed homes (approximately 460 of which are occupied), no homes under construction and no vacant developed lots. Currently, the District includes approximately 7 acres of undeveloped land that may be developed for single-family purposes in the future. Additionally, there is one 292-unit multifamily complex located on approximately of land in the District.

Commercial Building Development within the District

The commercial building development in the District currently consists of:

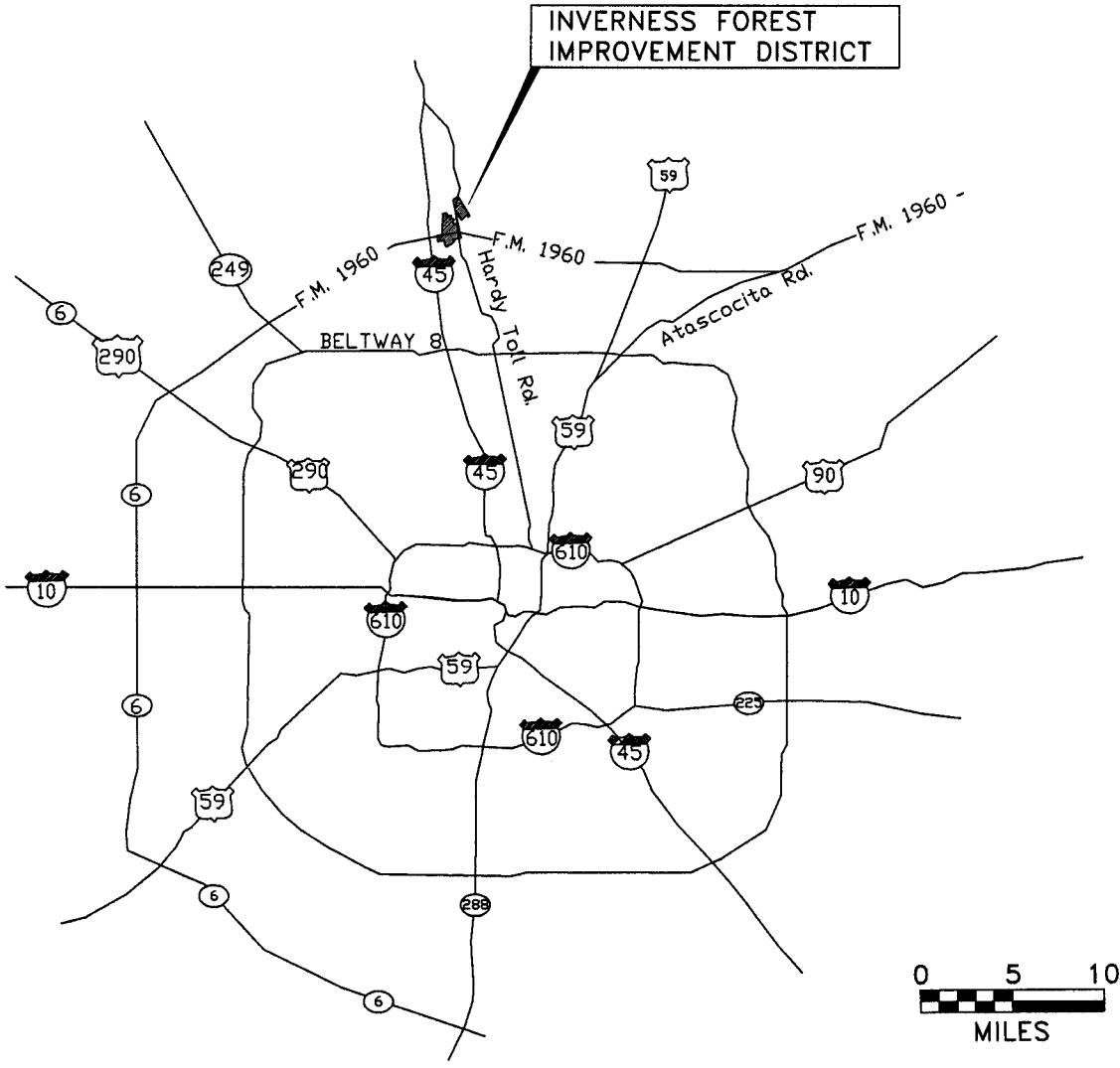
- The Inverness Road Industrial Park (the “Park”) located on approximately 6.5 acres which is located south of F.M. 1960 on the west side of Inverness Forest Blvd. The Park currently includes four office warehouse/distribution type buildings totaling approximately 56,000 square feet.
- Commercial development along Carlsway Road consists of 14 tracts consisting of light industrial manufacturing and commercial building development including: an Autozone Parts retail store (6,840 square feet); Warehouse Tires and Auto (6,500 square feet), Pollo Performance Shop for autos (10,455 square feet); Trench Plate Rental (14,950 square feet), Omni Surfaces Marble and Granite, (20,964 square feet), and nine other buildings totaling approximately 63,000 square feet.
- Vigavi Development Company has developed approximately 56 acres (three tracts of land) which are located south of F.M. 1960 on the eastside and the west side of Spring Bridge Road, just south of Bammel Road. Building development on the east side of Spring Bridge Road includes approximately 13.47 acres improved with four office warehouse buildings, (22,500 square feet, 15,000 square feet, 22,500 square feet and 14,000 square feet). Land development on the west side of Spring Bridge Road includes 13.4-acres of unimproved land including 7.3 acres that is of access right of way and storm water detention. The Vigavi tract south of Bammel Road includes approximately 20 acres including a Core Lumber’s wholesale lumber materials facility located on 9.4 acres and Preferred Pump’s facility located on 3 acres.
- Davecase Holdings owns a 23,500 square foot office/warehouse building located on a 2.3-acre tract situated east of the Hardy Toll Road.
- Neff Rentals currently owns a 13,650 square foot construction rental building located on a 4.2-acre tract located at 1320 Bammel Road.
- Bammel Beacon building Products is currently under construction with a 127,260 square foot manufacturing and office building located on a 14-acre site located at 1031 Bammel Road.
- The Hardy Industrial Complex includes of 6 office warehouse type buildings totaling 93,400 square feet located south of F.M. 1960 on the east side of Forest Blvd.
- The WPH USA Group owns 2 light industrial buildings totaling 24,000 square feet located on 5.3 acres located on the north side of FM 1960.

At the present time, there are approximately 55 acres of unimproved land located mostly south of F.M. 1960 that will most likely be developed for commercial building development purposes in the future. This land has water and sanitary sewer adjacent to the properties.

Developed/Improved Non-Taxable Properties in the District

Metropolitan Transit Authority, METRO, has Park and Ride Facility on 10.6 acres and there is a church located on 24.96 acres. Neither of these parcels are taxable.

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INVERNESS FOREST IMPROVEMENT DISTRICT
HARRIS COUNTY, TEXAS

LOCATION MAP (ATTACHMENT B TO
2015 TCEQ BOND APPLICATION)



1080 W. Sam Houston Pkwy N. Ste 200
Houston, Texas 77043-5014
Ph. 713-461-3530 Fax 713-932-7505
TBPE FIRM #449



INVERNESS FOREST IMPROVEMENT DISTRICT

THE SYSTEM

Regulation

The purchase, acquisition, and construction of the water, wastewater, and storm drainage facilities are to be financed by the District with the proceeds of the Bonds. The foregoing has been designed in accordance and with accepted engineering practices, rules, and regulations of certain governmental agencies. These governmental agencies have regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City, and Harris County. According to the Engineer, the design of all such facilities has been approved by all required governmental agencies.

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

Surface Water Conversion

The District is within the boundaries of the Subsidence District which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to annual permits issued by the Subsidence District. On April 14, 1999, the Subsidence District adopted a District Regulatory Plan (the "1999 Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the 1999 Plan, the District was required to submit to the Subsidence District by January 2003 a groundwater reduction plan and must have begun construction of surface water conversion infrastructure by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total water demand. This same disincentive fee will be imposed under the 1999 Plan if the District's groundwater withdrawal exceeds 70% of the District's total water demand beginning January 2010, exceeds 40% of the District's total water demand beginning January 2025, and exceeds 20% of the District's total water demand beginning January 2035. In addition, if the District does not meet the Subsidence District's requirements as described above, the District may be required to pay the disincentive fees adopted by the Subsidence District.

The District is located within the Authority. The Authority was created to provide for the supply of surface water to north Harris County and to prepare a ground water reduction plan to comply with the Subsidence District's 1999 Plan. The Authority submitted its Groundwater Reduction Plan to the Subsidence District and it received final certification on June 11, 2003. The Authority entered into a contract with the City to purchase surface water beginning in 2010. The District currently pays to the Authority a ground water pumpage fee of \$4.60 per 1,000 gallons of water produced from its wells. If the District were to receive surface water from the Authority, the Authority would charge a fee of \$5.05 per 1,000 gallons of surface water purchased from the Authority. The Authority controls when, if ever, the District will receive surface water. However, to date, the District has not been notified of any such intent by the Authority. The issuance of additional bonds by the District in an undetermined amount may be necessary in the future to develop further surface water infrastructure or to participate in the Authority's regional surface water conversion effort.

Description of the System

- Water Supply System -

The District obtains its water from three ground water wells; all water is pumped to a single water supply plant known as Water Plant No.1. The District's Wells Numbered 1, 2, and 3 have a combined pumping capacity of 1,581 gallons per minute. Water Plant No. 1 consists of two 186,000-gallon ground storage tanks, four booster pumps with combined capacity of 2,000 gallon per minute ("gpm"), two 15,000-gallon pressure tanks, and a standby generator for emergency power. The District currently has water supply capacity capable of serving approximately 1,866 equivalent single-family connections ("ESFCs").

The District currently has a water supply agreement with Pine Forest Municipal Utility District ("Pine Forest") whereby the District agrees to provide Pine Forest with 119,700 gallons per day ("gpd") which will serve approximately 333 ESFCs. At the present time, Pine Forest is approximately 30% developed. The District also has an emergency water interconnect with Timber Lane Utility District to provide or receive water in an emergency situation.

- Wastewater Treatment Plant -

The wastewater treatment plant serving the District is located on an approximately three-acre reserve. The 500,000 gpd wastewater treatment plant is currently capable of serving approximately 1,667 ESFCs. The 1,667 ESFCs of capacity is adequate to serve the full build-out of developed sections of the District given currently anticipated land uses. The District currently has a waste water treatment contract with Pine Forest whereby the District agrees to provide Pine Forest with 100,000 gpd of wastewater treatment capacity.

- Drainage System -

The land in the District generally slopes to the north therefore, stormwater run-off flows into Cypress Creek via curbs, gutters, underground storm sewers, and culverts. A portion of the District (Inverness Forest, Sections 2 and 4 and some surrounding areas) are also protected by a levee, three interconnected storm water holding basins, and a stormwater pump station. The levee and the stormwater pump station are owned by Harris County but are maintained by the District.

General Fund Operating History

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon taxable property in the District and are further secured by a pledge of the Net Revenues of the District's System all as defined and further explained herein. The information included in the table below relating to the District's water and sewer system operations is provided for information purposes only. The District does not anticipate the Net Revenues of the System will ever be available to make a contribution to the District's annual debt service payments in the future.

	<u>Fiscal Year End December 31 (a), (b)</u>				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
REVENUES					
Property taxes	\$422,565	\$354,453	\$322,025	\$291,785	\$245,540
Water service	\$145,011	\$131,603	\$131,988	\$128,521	\$127,391
Sewer service	\$134,251	\$131,618	\$131,862	\$128,915	\$129,178
Surface water fees	\$308,478	\$265,291	\$240,013	\$202,149	\$173,019
Security fees	\$87,031	\$83,136	\$79,335	\$73,353	\$70,014
Assessment fees	\$37,728	\$37,523	\$37,077	\$36,896	\$36,820
Penalty, reconnection fees and other	\$11,810	\$27,907	\$14,445	\$13,539	\$15,546
Tap connection and inspection fees	\$68,630	\$554,015	\$76,395	\$38,281	\$55,650
Interest on deposits and investments	<u>\$9,885</u>	<u>\$17,304</u>	<u>\$9,294</u>	<u>\$4,832</u>	<u>\$3,824</u>
TOTAL REVENUES	\$1,225,389	\$1,602,850	\$1,042,434	\$918,271	\$856,982
EXPENDITURES					
Current:					
Purchased services	\$477,230	\$475,954	\$467,833	\$502,420	\$114,434
Professional fees	\$139,576	\$139,060	\$135,173	\$134,710	\$105,123
Contracted services	\$26,858	\$26,967	\$27,314	\$44,308	\$41,146
Utilities	-	-	-	-	\$47,866
Surface water pumpage fees	-	-	-	-	\$107,757
Repairs and maintenance	\$68,234	\$51,261	\$78,830	\$41,918	\$116,663
Other operating expenditures	\$11,718	\$11,432	\$15,885	\$11,007	\$43,558
Security service	\$76,248	\$85,100	\$85,320	\$85,420	\$84,545
Administrative expenditures	\$33,213	\$24,151	\$23,646	\$17,878	\$40,733
Capital Outlay	<u>\$97,485</u>	<u>\$236,182</u>	<u>\$64,087</u>	<u>\$49,895</u>	<u>\$21,175</u>
TOTAL EXPENDITURES	\$930,562	\$1,050,107	\$898,088	\$887,556	\$723,000
EXCESS REVENUES (EXPENDITURES)	<u>\$294,827</u>	<u>\$552,743</u>	<u>\$144,346</u>	<u>\$30,715</u>	<u>\$133,982</u>

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

(b) As of November 16, 2021, the District's General Fund had an unaudited cash and temporary investment balance of approximately \$2,179,986. The General Fund budget for the fiscal year ending December 31, 2021, experienced unaudited revenues of approximately \$1,015,145 and un audited operating expenditures of \$760,267. Additionally, the District expended \$66,076 on capital expenditures from the General fund during 2021. The budget for the fiscal year ending December 31, 2022 calls for General Fund revenues of \$1,293,540 General Fund operating expenditures of \$921,225. Additionally, the District has budgeted \$150,000 for capital expenditures during 2022.

MANAGEMENT OF THE DISTRICT

The District is governed by a board of directors (the "Board") which has control over and management supervision of all affairs of the District. All of the directors reside in the District. A directors' election is held within the District in November in even-numbered years. Directors are elected to serve four-year staggered terms. The current members and officers of the Board, along with their titles on the Board, are listed below.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u> <u>May</u>
Charles Pritchard	President/Treasurer	2022
Jewel DeBardelaben	Vice President/Tax Compliance	2024
Gary Portzline	Secretary	2024
Don Townsend	Assistant Secretary	2022
Dale Speas	Director	2022

The District does not employ a general manager or any other full-time employees. The District has contracted for utility system operating, bookkeeping, tax assessing and collecting services and annual auditing of its financial statements as follows:

Tax Assessor/Collector - The District's Tax Assessor/Collector is Equi-Tax, Inc., who is employed under an annual contract and represents approximately 100 other utility districts.

Bookkeeper - The District's Bookkeeper is L&S District Services, LLC, which acts as bookkeeper for approximately 21 other utility districts.

Auditor - The financial statements of the District as of December 31, 2020, and for the year then ended, included in this offering document, have been audited by Mark Eyring, CPA, PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

Utility System Operator - The System's operator is H2O Innovation, Inc., which currently acts as utility system operator for approximately 38 utility districts.

Engineer - The consulting engineer for the District is Langford Engineering, Inc. (the "Engineer").

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

Bond Counsel – Radcliffe Bobbitt Adams Polley PLLC serves as Bond Counsel to the District and as counsel for the District on matters other than the issuance of bonds. Fees paid for the Bond Counsel services will be paid from proceeds of the Bonds; such fees are contingent upon the sale and delivery of such Bonds.

Special Tax Counsel – Orrick, Herrington & Sutcliffe LLP ("Special Tax Counsel") serve as Special Tax Counsel matters related to the issuance of the Bond. Fees paid to Special Tax counsel will be paid from proceeds of the bonds; such fees are contingent upon the sale and delivery of such Bonds.

DISTRICT INVESTMENT POLICY

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

DISTRICT DEBT

2021 Taxable Valuation	\$195,806,348	(a)
Direct Debt		
Outstanding Bonds as of January 1, 2021	\$175,000	(b)
The Bonds	<u>\$3,140,000</u>	
Total Direct Debt	\$3,315,000	
Estimated Overlapping Debt	<u>\$9,102,838</u>	(c)
Direct and Estimated Overlapping Debt	\$12,417,838	
Percentage of Direct Debt to:		
2021 Taxable Valuation		1.69%
Percentage of Direct and Estimated Overlapping Debt to:		
2021 Taxable Valuation		6.34%
2021 Tax Rate Per \$100 of Assessed Value		
Debt Service Tax	\$0.17	
Maintenance Tax	<u>\$0.26</u>	
Total 2021 Tax Rate	\$0.43	

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- (a) Reflects data supplied by HCAD. The figure above includes the value of property that has been fully certified by HCAD but excludes HCAD's estimated of value of property that is in the process of being certified (\$11,717,455). See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Excludes the Refunded Bonds. See "PLAN OF FINANCING – Currently Outstanding Bonds."
- (c) See "DISTRICT DEBT – Estimated Overlapping Debt."

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 the "Texas Municipal Reports," published by the Municipal Advisory Council of Texas and from information obtained directly from certain jurisdictions. Except for the amounts 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. Furthermore, certain of the entities listed below may have issued additional bonds, the amount of which has not been reported. 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.

<u>Taxing Jurisdiction</u>	<u>Outstanding Debt</u>	<u>Overlapping Debt</u>	
		<u>Percent</u>	<u>Amount</u>
Aldine Independent School District	\$995,125,000	0.78%	\$7,719,688
Harris County	\$1,293,922,125	0.04%	\$482,027
Harris County Flood Control District	\$334,270,000	0.04%	\$127,004
Port of Houston Authority	\$792,439,397	0.04%	\$303,198
Harris County Hospital District	\$81,540,000	0.04%	\$30,963
Harris County Department of Education	\$20,185,000	0.04%	\$7,448
Lone Star College System	\$518,505,000	0.08%	\$432,511
Total Estimated Overlapping Debt			\$9,102,838
The District's Direct Debt (a)			\$3,315,000
Total Direct and Estimated Overlapping Debt			\$12,417,838

(a) Includes the Bonds excludes the Refunded Bonds.

DISTRICT TAX DATA

Tax Rate and Collections

The following table sets forth the historical tax information collection experience of the District for the years 2017 through 2021. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<u>Tax Year</u>	<u>Taxable Valuation</u>	<u>Tax Rate</u> (a)	<u>Tax Levy</u>	<u>Cumulative Tax Collections</u> (b)	<u>Year Ended September 30</u>
2021	\$195,806,348(c)	\$0.44	\$861,548	(d)	2022
2020	\$188,283,374	\$0.44	\$828,447	100%	2021
2019	\$164,450,280	\$0.44	\$723,581	100%	2020
2018	\$154,898,613	\$0.44	\$681,554	100%	2019
2017	\$146,420,672	\$0.44	\$644,251	100%	2018

(a) See – "Tax Rate Distribution" herein.

(b) Represents the tax collections as of October 30, 2021.

(c) The figure above includes the value of property that has been fully certified by HCAD but excludes HCAD's estimated of value of property that is in the process of being certified (\$11,717,455).

(d) The 2021 tax levy is due on or before January 31, 2022.

Maintenance Tax

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. Such maintenance tax was authorized by vote of the District's electors in an amount not to exceed \$1.00 per \$100 of assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Outstanding Bonds, if any, and any tax bonds which may be issued in the future.

Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2017 through 2021. The figure above includes the value of property that has been fully certified by HCAD but excludes HCAD's estimated of value of property that is in the process of being certified (\$11,717,455).

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Debt Service	\$0.17	\$0.15	\$0.18	\$0.21	\$0.22
Maintenance/Operation	<u>\$0.26</u>	<u>\$0.29</u>	<u>\$0.26</u>	<u>\$0.23</u>	<u>\$0.22</u>
Total	\$0.43	\$0.44	\$0.44	\$0.44	\$0.44

Additional Penalties

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

Principal Taxpayers

The list of principal taxpayers for 2021 and the other information provided by this table were provided by HCAD to the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions from taxation. This table does not reflect any corrections pursuant to subsequent action of HCAD.

<u>Property Owner</u>	<u>Property Description</u>	<u>Property Value</u>	<u>Percent of Total</u>
Kendall Manor LLC	Commercial	\$16,687,280	8.52%
Bammel Beacon 1031 LLC	Commercial	\$5,598,822	2.86%
2016 Northgate Hotel LLC	Commercial	\$5,283,430	2.70%
Houston ST LLC	Commercial	\$4,208,910	2.15%
Trench Plate Rental Co Inc	Commercial	\$3,448,123	1.76%
Vigavi Realty LLC	Commercial	\$3,411,398	1.74%
Eroc Properties LLC	Commercial	\$3,121,912	1.59%
Sharewell HDD LLC	Commercial	\$2,863,638	1.46%
KSW Holdings AG Properties	Commercial	\$2,829,408	1.45%
Core Lumber	Commercial	<u>\$2,664,637</u>	<u>1.36%</u>
Total		\$50,117,558	25.60%

Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the deferments for 2017 through 2021. Reflects data supplied by Harris County Appraisal District ("HCAD"). See "TAXING PROCEDURES."

<u>Tax Roll Year</u>	<u>Type of Property</u>			<u>Gross Valuations</u>	<u>Exemptions</u>	<u>Taxable Valuations</u>
	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>			
2021	\$55,618,241	\$139,293,987	\$34,142,305	\$229,054,533	\$33,248,185	\$195,806,348 (a)
2020	\$56,917,465	\$126,808,484	\$38,360,021	\$222,085,970	\$33,802,596	\$188,283,374
2019	\$51,586,756	\$112,113,206	\$30,960,527	\$194,660,489	\$30,210,209	\$164,450,280
2018	\$47,498,902	\$106,729,785	\$20,346,690	\$174,575,377	\$19,676,764	\$154,898,613
2017	\$44,264,730	\$103,091,081	\$18,935,679	\$166,291,490	\$19,870,818	\$146,420,672

- (a) The figure above includes the value of property that has been fully certified by HCAD but excludes HCAD's estimated of value of property that is in the process of being certified (11,717,455).

Estimated Overlapping Taxes

The following table sets forth all 2021 taxes levied by overlapping taxing jurisdictions. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy by entities other than political subdivisions.

<u>Taxing Jurisdictions</u>	<u>2021 Tax Rate</u>
Aldine Independent School District	\$1.266900
Harris County (a)	\$0.586340
Lone Star College System	\$0.107800
Harris County Emergency Service District No. 17	\$0.097454
Harris County Emergency Service District No. 1	<u>\$0.094314</u>
Overlapping Taxes	\$2.152808
The District	<u>\$0.430000</u>
Total Direct & Overlapping Taxes	\$2.582808

(a) Includes Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and Port of Houston Authority.

Tax Adequacy of Tax Revenue

The calculations shown below are solely for the purpose of illustration, reflect no net revenues of the System, no transfers of surplus funds from the District’s Operating Fund to the Debt Service Fund, and no increase or decrease in assessed valuation over the 2021 Taxable Valuation. The calculations utilize a tax rate adequate to service the District’s total debt service requirements after issuance of the Bonds.

Maximum Annual Debt Service Requirements (2027).....	\$282,725
Requires a \$0.16 debt service tax rate on the 2021 Taxable Valuation at 95% collection.....	\$297,626

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal and interest on the Bonds and any additional bonds payable from taxes that the District may hereafter issue (see "RISK FACTORS - Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully in this Official Statement under the caption "THE BONDS - Source of and Security for Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system (see "DISTRICT TAX DATA - Maintenance Tax") and for the payment of certain contractual obligations if authorized by the voters in the District.

Property Tax Code and County-Wide Appraisal District

Title 1 of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units in a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District ("HCAD") has the responsibility for appraising property for all taxing units within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board").

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to, property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares, and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons, and travel trailers, to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an

election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of \$3,000, or between \$5,000 and \$12,000 depending on the disability rating of the veteran, of taxable valuation. During 2021 the District granted \$15,000 exemption for the elderly and disabled in the District.

Residential Homestead Exemptions. The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the assessor and collector of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by July 1. The District adopted an order granting a general 15% residential homestead exemption in 2021.

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

Tax Abatement

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City of Houston (after annexation), Harris County, Aldine Independent School District, or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction, including the District, has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. No tax abatement agreements exist at this time with any property owners in the District.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

The Property Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation, and the chief appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use, open space land and timberland.

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District,

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

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

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed are classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification 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, subject to certain homestead exemptions, are required to hold a rollback 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 tax year on a residence homestead appraised at the average appraised value of a resident 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, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Property Tax Code, are required to hold a rollback 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 are classified as Developing Districts. The qualified voters of these districts, upon the Developing District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax rate imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If a rollback 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 tax year on a residence homestead appraised at the average appraised value of a resident 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 on an annual basis, at the time a district sets its tax rate. The District is designated a Developing District for the 2021 tax year. 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 rollback election calculation.

District's Rights in the Event of Tax Delinquencies

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

Except with respect to owners of residential homestead property who are: (i) 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 years after the deed issued at foreclosure is filed of record and may redeem all other property within six 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 "RISK FACTORS – Tax Collection Limitations."

ANNEXATION AND CONSOLIDATION

Annexation by the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District.

If the District is annexed, the City of Houston will assume the District's assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex the

District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Consolidation

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

THE BONDS

General

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

The Bonds are dated and will bear interest from February 1, 2022, at the per annum rates shown on the cover page hereof. The Bonds are fully registered, serial bonds maturing on March 1 in the years 2023 through 2042, inclusive, in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable September 1, 2022, and each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Record Date on the Bonds is the 15th day of the calendar month next preceding the interest payment date.

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

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

Optional Redemption

The District reserves the right to redeem, prior to maturity the Bonds, in whole or in part from time to time, on March 1, 2030, or on any date thereafter, at a price of par plus accrued interest to the date of redemption. If fewer than all of the Bonds are to be redeemed, the particular Bonds to be redeemed will be selected by the District. Notice of each exercise of the right of redemption will be given at least thirty days prior to the date fixed for redemption by mailing written notice by first class mail to each of the Registered Owners (the "Registered Owners") of the Bonds to be redeemed. When Bonds have been called for redemption, they will become due and payable on the redemption date.

Mandatory Redemption

The Bonds maturing March 1 in the years 2033, 2035, 2037, 2039 and 2042 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown on the table(s) below.

\$245,000 Term Bonds, due March 1, 2033

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2031	-
March 1, 2032	\$120,000
March 1, 2033 (maturity)	\$125,000

\$250,000 Term Bonds, due March 1, 2035

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2034	\$125,000
March 1, 2035 (maturity)	\$125,000

\$270,000 Term Bonds, due March 1, 2037

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2036	\$125,000
March 1, 2037 (maturity)	\$145,000

\$290,000 Term Bonds, due March 1, 2039

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2038	\$145,000
March 1, 2039 (maturity)	\$145,000

\$420,000 Term Bonds, due March 1, 2042

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2040	\$140,000
March 1, 2041	\$140,000
March 1, 2042 (maturity)	\$140,000

Notice of Redemption; Partial Redemption

While the Bonds are in book-entry-only form, pursuant to the Bond Order, the Term Bonds will be scheduled for annual mandatory sinking fund redemption by DTC in accordance with its procedures. If the book-entry-only system is discontinued, the Paying Agent/Registrar shall select by lot the Term Bonds, if any, to be redeemed and issue a notice of redemption in the manner provided below. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of the mailing of notice of such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

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

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

Source of and Security for Payment

The Bonds are secured by and payable from the levy of a continuing direct annual ad valorem tax, without legal limitation as to maximum rate or amount, levied against all taxable property in the District. In the Bond Order, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Registrar fees, and Appraisal District fees. Additionally, the Bonds are secured by a pledge of the Net Revenues (as defined herein) of the District's waterworks, sanitary sewer and drainage system (the "System") all as described in more detail in the paragraph below. The Bonds are obligations of the District and are not the obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District.

As noted above the Bonds are further payable from and secured by a pledge of and lien on certain Net Revenues, if any, of the District's waterworks, sanitary sewer and drainage system (the "System"). "Net Revenues" means all income or increment which may grow out of the ownership and operation of the System, and improvements (as same are purchased, constructed, or otherwise acquired), being the gross revenue income less such portion of such revenue income as reasonably may be required to provide for the administration, efficient operation, and adequate maintenance of the System, and less that portion thereof derived from special projects contracts with private corporations, municipalities, or political subdivisions which, under the terms of the authorizing resolutions, may be pledged for the requirements of the District's revenue bonds issued particularly to finance the facilities needed in performing any such contracts.

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 now or hereafter permitted by law. Under current law such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts

sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision or a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

Funds

The Bond Order confirms the District's Debt Service Fund, which is kept separate from all other funds of the District and used for payment of debt service on the Bonds, the Outstanding Bonds, and any additional bonds payable from taxes which may be issued in the future by the District. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Registrar.

Authorized and Unissued Bonds

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, the laws of the State of Texas, including Chapters 49 and 51 of the Texas Water Code, as amended, Chapter 1207, Texas Government Code, as amended, a refunding bond election held in the District and the City of Houston Ordinance No. 97-416.

The District has the right to issue all such bonds, as may hereafter be approved by the Board, subject to the approval of the Attorney General of the State of Texas, and in the case of new money bonds, subject to the approval of the TCEQ. Any such additional new money bonds and refunding bonds would be issued on a parity with the Bonds. Any future new money bonds to be issued by the District must also be approved by the TCEQ. According to the Engineer, such bond authorization should be adequate to finance the District's share of development costs to allow for the full development of land within the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds described above which have heretofore been authorized by the voters of the District, may be issued by the District from time to time as needed. If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

Issuance of Additional Debt

If authorized by the District's voters and with the approval of the Commission, the District may issue bonds necessary to provide and maintain improvements for which the District was created. See "THE DISTRICT." Subsequent to the sale of the Bonds the District will have \$4,810,000 of authorized but unissued combination unlimited tax and revenue bonds that may be sold for the purpose of providing waterworks, sanitary sewer, and drainage facilities to land within the District. In addition, the District has \$9,290,000 (preliminary, subject to change) of authorized but unissued refunding bonds. See "RISK FACTORS -- Future Debt." The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the District, and in the Bond Order the District reserves the right to issue additional waterworks and sewer system combination unlimited tax bonds, combination unlimited tax and revenue bonds, revenue bonds, inferior lien bonds and refunding bonds.

Paying Agent/Registrar

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

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

Registration and Transfer

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

Lost, Stolen, or Destroyed Bonds

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

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to the Texas Bond Procedures Act, Chapter 1201, Texas Government Code, as amended, and Section 49.186, Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for the public funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than "A" or its equivalent to be legal investments for such entity's funds. The Bonds are eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Again, political subdivisions in the State of Texas may impose a requirement that the Bonds have a rating of not less than "A" or its equivalent to be eligible to serve as collateral for their funds.

The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

BOOK-ENTRY-ONLY SYSTEM

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

The District and the Underwriters cannot and do 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 United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues

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

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

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

The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. 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 Securities, such as redemptions, tenders, defaults, and proposed amendments to the Certificate 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 fewer 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. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 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, securities are required to be printed and delivered.

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

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

TAX MATTERS

Tax Exemption

In the opinion of Special Tax Counsel based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Special Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

To the extent the issue price of any maturity of the Bonds may be less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Special Tax Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not

limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Qualified Tax-Exempt Obligations

The District designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated “bank-qualified” investments.

LEGAL MATTERS

Legal Opinion

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including a certified copy of the approving 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 Bonds are valid and legally binding obligations of the District. The District will also furnish the legal opinions of Radcliffe Bobbitt Adams Polley PLLC (“Bond Counsel”) and the legal opinion of Special Tax Counsel to the effect that, based upon an examination of such transcript, the Bonds are legal, valid and binding obligations of the District and to the effect that the interest on the Bonds is exempt from federal income taxation under existing statutes, regulations, published rulings and court decisions. Such opinions express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

The opinion of Bond Counsel is expected to be reproduced on the back panel of the Bonds. The failure to print such legal opinion on any Bond shall not constitute cause for a failure or refusal by the Underwriter to accept delivery of and pay for the Bonds.

Legal Review

Bond Counsel has reviewed the information appearing in the Official Statement under the captions “CONTINUING DISCLOSURE OF INFORMATION – SEC RULE 15c2-12,” “THE BONDS,” “THE DISTRICT – General,” “TAXING PROCEDURES,” “ANNEXATION AND CONSOLIDATION,” “TAX MATTERS” solely to determine whether such information fairly summarizes the procedures, documents, and legal matters referred to therein, “LEGAL MATTERS,” and “REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS.” However, Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement in its capacity as Bond Counsel. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein, other than the matters discussed immediately above.

Radcliffe Bobbitt Adams Polley PLLC acts as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

On the date of delivery of the Bonds, the District will execute and deliver a certificate to the effect that there is not pending, and to the knowledge of the District, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

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

VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS

Robert Thomas CPA, LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash deposited to pay the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds, (b) the mathematical computations related to certain requirements of the City of Houston Ordinance No. 97-416, as amended, and (c) the mathematical computations of yield used by Special Tax Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

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

OFFICIAL STATEMENT

Sources of Information

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, and other sources that are believed to be reliable, but no representation is made as to the accuracy or completeness of the information derived from such other sources. The summaries of the statutes, orders, resolutions and engineering and other related reports set forth in the 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.

Consultants

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

Engineer - The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "THE SYSTEM" and certain engineering matters included in "THE DISTRICT - Description" and "THE DISTRICT - Status of Development," have been provided by Langford Engineering, Inc., and have been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

Tax Assessor/Collector - The information contained in this Official Statement relating to the estimated assessed valuation of property and, in particular, such information contained in the section captioned "DISTRICT TAX DATA," has been provided by the Harris County Appraisal District and by Tax Tech, Inc, in reliance upon their authority as experts in the field of tax assessing and appraising.

Auditor - The financial statements of the District as of December 31, 2020, and for the year then ended, included in this offering document, have been audited by Mark Eyring, CPA, PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

Continuing Availability of Financial Information

Pursuant to Texas law, the District has its financial statements prepared in accordance with generally accepted accounting principles and has its financial statements audited by a certified public accountant in accordance with generally accepted auditing standards within 120 days after the close of its fiscal year. The District's audited financial statements are required to be filed with the TCEQ within 135 days after the close of its fiscal year.

The District's financial records and audited financial statements are available for public inspection during regular business hours at the office of the District and copies will be provided on written request, to the extent permitted by law, upon payment of copying charges. Requests for copies should be addressed to the District in care of Radcliffe Bobbitt Adams Polley PLLC, 2929 Allen Parkway, Suite 3450, Houston, Texas 77019-7120.

Certification as to Official Statement

The Board of Directors of the District, acting in its official capacity and in reliance upon the consultants listed above, and certain certificates of representation to be provided to the Board, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements 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 were made, not misleading. The information, descriptions and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation of such matters and makes no representation as to the accuracy or completeness thereof.

Updating of Official Statement

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Inverness Forests Improvement District as of the date shown on the cover page.

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020

INVERNESS FOREST IMPROVEMENT DISTRICT
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
DECEMBER 31, 2020

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	9-10
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	11-12
NOTES TO THE FINANCIAL STATEMENTS	13-23
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND	24
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, JOINT WATER PLANT SPECIAL REVENUE FUND	25
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, JOINT WASTEWATER TREATMENT PLANT SPECIAL REVENUE FUND	26
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, FLOOD CONTROL MAINTENANCE SPECIAL REVENUE FUND	27
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY	28
SCHEDULE OF SERVICES AND RATES	29-30
EXPENDITURES FOR THE YEAR ENDED DECEMBER 31, 2020	31-32
ANALYSIS OF CHANGES IN DEPOSITS, ALL GOVERNMENTAL FUND TYPES	33
SCHEDULE OF CERTIFICATES OF DEPOSIT	34
TAXES LEVIED AND RECEIVABLE	35-36
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS	37-39
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT	40
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, GENERAL FUND	41
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, DEBT SERVICE FUND	42
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	43-44

Mark C. Eyring, CPA, PLLC

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April 20, 2021

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Inverness Forest
Improvement District
Harris County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Inverness Forest Improvement District, as of and for the year ended December 31, 2020, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 assessment of the risk 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 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 I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Inverness Forest Improvement District as of December 31, 2020, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8, the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 24, the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Joint Water Plant Special Revenue Fund, on Page 25, the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Joint Wastewater Treatment Plant Special Revenue Fund, on Page 26 and the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Flood Control Maintenance Special Revenue Fund, on Page 27 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 28 to 44 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in black ink, appearing to read "M. A. J.", is located at the bottom right of the page.

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Inverness Forest Improvement District (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended December 31, 2020.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services and levee maintenance. Other activities, such as security services, are minor activities and are not budgeted or accounted for as separate programs.

The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

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

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

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

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

Fund Financial Statements

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

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

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

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality and the Texas Water Development Board. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality and the Texas Water Development Board. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. The financial objective for the Special Revenue Fund is to insure that funds are available to pay for any anticipated expenditures in accordance with the contract with Harris County Flood Control. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Current and other assets	\$ 4,449,456	\$ 4,003,152	\$ 446,304
Capital assets	4,611,864	4,770,870	(159,006)
Total assets	<u>9,061,320</u>	<u>8,774,022</u>	<u>287,298</u>
Long-term liabilities	4,011,961	4,230,561	(218,600)
Other liabilities	657,498	609,884	47,614
Total liabilities	<u>4,669,459</u>	<u>4,840,445</u>	<u>(170,986)</u>
Total deferred inflows of resources	<u>876,427</u>	<u>723,175</u>	<u>153,252</u>
Net position:			
Invested in capital assets, net of related debt	434,008	379,507	54,501
Restricted	1,280,761	1,255,904	24,857
Unrestricted	1,800,665	1,574,991	225,674
Total net position	<u>\$ 3,515,434</u>	<u>\$ 3,210,402</u>	<u>\$ 305,032</u>

Summary of Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 736,336	\$ 690,467	\$ 45,869
Charges for services	885,401	1,311,923	(426,522)
Other revenues	13,567	23,621	(10,054)
Total revenues	<u>1,635,304</u>	<u>2,026,011</u>	<u>(390,707)</u>
Expenses:			
Service operations	1,200,145	1,309,837	(109,692)
Debt service	130,127	131,855	(1,728)
Total expenses	<u>1,330,272</u>	<u>1,441,692</u>	<u>(111,420)</u>
Change in net position	305,032	584,319	(279,287)
Net position, beginning of year	<u>3,210,402</u>	<u>2,626,083</u>	<u>584,319</u>
Net position, end of year	<u>\$ 3,515,434</u>	<u>\$ 3,210,402</u>	<u>\$ 305,032</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended December 31, 2020, were \$3,149,181, an increase of \$237,899 from the prior year.

The General Fund balance increased by \$219,827, as revenues exceeded expenditures and the \$75,000 transfer to the Flood Control Maintenance Special Revenue Fund.

The Joint Water Plant Special Revenue Fund balance did not change.

The Joint Wastewater Treatment Plant Special Revenue Fund balance did not change.

The Flood Control Maintenance Special Revenue Fund balance increased by \$25,945, as interest earnings and the transfer of \$75,000 from the General Fund exceeded expenditures.

The Debt Service Fund balance decreased by \$7,873, in accordance with the District's financial plan.

The Capital Projects Fund balance did not change.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. The comparison to actual to budgeted amounts is presented on Page 24 of this report. The budgetary fund balance as of December 31, 2020, was expected to be \$1,652,378 and the actual end of year fund balance was \$1,791,107.

Capital Asset and Debt Administration

Capital Assets

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2020</u>	<u>2019</u>	<u>Change</u>
Land	\$ 9,780	\$ 9,780	\$ 0
Construction in progress	928,126	928,126	0
Water facilities	1,674,956	1,733,859	(58,903)
Sewer facilities	1,999,002	2,099,105	(100,103)
Totals	<u>\$ 4,611,864</u>	<u>\$ 4,770,870</u>	<u>\$ (159,006)</u>

Changes to capital assets during the fiscal year ended December 31, 2020, are summarized as follows:

Decreases:	
Depreciation	<u>\$ (159,006)</u>
Net change to capital assets	<u>\$ (159,006)</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended December 31, 2020, are summarized as follows:

Bonded debt payable, beginning of year	\$ 3,670,000
Bonds paid	<u>(170,000)</u>
Bonded debt payable, end of year	<u>\$ 3,500,000</u>

At December 31, 2020, the District had \$4,810,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds have an underlying rating of BBB+ by Standard & Poor's. The Series 2015 and 2015A bonds are insured by Assured Guaranty Municipal Corp. The insured rating of the Series 2015 and 2015A bonds is AA by Standard & Poor's. There was no change in the bond ratings during the fiscal year ended December 31, 2020.

As further described in Note 5 of the notes to the financial statements, developers within the District are currently constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developers for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at December 31, 2020, was \$772,191.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$25,490,000 for the 2020 tax year (approximately 15%) due to the increase of the average assessed valuations on existing property and the addition of taxable property.

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District would be annexed for limited purposes by the City. The terms of any such agreement would be determined by the City and the District.

The District is not aware of any plans regarding annexation or a strategic partnership with the City of Houston.

Water Supply Issues

The District is located within the boundaries of the Harris-Galveston Subsidence District ("Subsidence District") and the North Harris County Regional Water Authority ("NHCRWA"). The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water) as required by regulations of the Subsidence District. The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to an order of the Subsidence District and the NHCRWA's Groundwater Reduction Plan (as approved by the Subsidence District), the area within the boundaries of the NHCRWA must be converted to at least 30% alternate source (e.g., surface) water use by 2010, 60% alternate source water use by 2025, and 80% alternate source water use by 2035. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA is operating a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the "NHCRWA System"). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

The District is subject to the NHCRWA's Groundwater Reduction Plan. The NHCRWA, as part of the plan of financing the NHCRWA System, has elected to allow districts, such as the District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the District to a future credit against pumpage fees due to the NHCRWA. The District has not elected this financing option. As a result, the District has elected to pay its share in the NHCRWA System costs over time through payment of levied pumpage fees to the NHCRWA. The District may be required by the NHCRWA to participate in the groundwater conversion project by converting to surface water some time after January 1, 2010. Noncompliance with the NHCRWA's Groundwater Reduction Plan or nonparticipation in the NHCRWA's surface water conversion project could result in the District's exclusion from the NHCRWA's Groundwater Reduction Plan and assessment of the Subsidence District's disincentive fee against groundwater pumped from wells located within the District.

Groundwater pumped from wells located within the District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located within the District is subject to a per 1,000 gallon pumpage fee that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Pumpage Fee Order. The pumpage fee was equal to \$4.25 at December 31, 2020, and is expected to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance the acquisition and construction of surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the NHCRWA). The NHCRWA has sold bonds to finance a portion of the costs related to the design, acquisition and construction of the NHCRWA System. The NHCRWA bonds are secured by revenues of the NHCRWA, including the pumpage fee.

INVERNESS FOREST IMPROVEMENT DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2020

	<u>Special Revenue Funds</u>						Total	Adjustments (Note 3)	Statement of Net Position
	General	Joint Water Plant	Joint Wastewater Treatment Plant	Flood Control Maintenance	Debt Service	Capital Projects			
ASSETS									
Cash, including interest-bearing accounts, Note 7	\$ 1,560,232	\$ 15,747	\$ 22,000	\$ 219,396	\$ 234,324	\$ 29,166	\$ 2,080,865	\$	\$ 2,080,865
Certificates of deposit, at cost, Note 7	645,000				257,000		902,000		902,000
Receivables:									
Property taxes	414,814				216,600		631,414		631,414
Accrued penalty and interest on property taxes							0	3,489	3,489
Service accounts	104,165						104,165		104,165
Accrued interest	168				328		496		496
Other	12,177						12,177		12,177
Due from other district, Note 11		11,632	4,268			698,950	714,850		714,850
Due from other fund		25,832	8,073				33,905	(33,905)	0
Maintenance taxes collected not yet transferred from other fund	35,830						35,830	(35,830)	0
Operating reserves at Joint Water Plant and Joint Wastewater Treatment Plant, Note 11	38,400						38,400	(38,400)	0
Capital assets, net of accumulated depreciation, Note 4:									
Capital assets not being depreciated							0	937,906	937,906
Depreciable capital assets							0	3,673,958	3,673,958
Total assets	<u>\$ 2,810,786</u>	<u>\$ 53,211</u>	<u>\$ 34,341</u>	<u>\$ 219,396</u>	<u>\$ 708,252</u>	<u>\$ 728,116</u>	<u>\$ 4,554,102</u>	<u>4,507,218</u>	<u>9,061,320</u>

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

INVERNESS FOREST IMPROVEMENT DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (Continued)

DECEMBER 31, 2020

	<u>Special Revenue Funds</u>						Adjustments (Note 3)	Statement of Net Position
	<u>General</u>	<u>Joint Water Plant</u>	<u>Joint Wastewater Treatment Plant</u>	<u>Flood Control Maintenance</u>	<u>Debt Service</u>	<u>Capital Projects</u>		
LIABILITIES								
Accounts payable	\$ 55,271	\$ 29,211	\$ 10,341	\$ 3,899	\$ 194	\$	\$ 98,916	98,916
Customer deposits	131,480						131,480	131,480
Due to developers	211,820						211,820	211,820
Accrued interest payable							0	39,787
Due to other funds	33,905						33,905	(33,905)
Maintenance taxes collected not yet transferred to other fund					35,830		35,830	(35,830)
Other district's equity in joint facilities							0	9,600
Long-term liabilities, Note 5:								
Due within one year							0	165,895
Due in more than one year							0	4,011,961
Total liabilities	432,476	29,211	10,341	3,899	36,024	0	511,951	4,157,508
DEFERRED INFLOWS OF RESOURCES								
Property tax revenues	587,203	0	0	0	305,767	0	892,970	(16,543)
FUND BALANCES / NET POSITION								
Fund balances:								
Nonspendable: Operating reserves at Joint Water and Joint Wastewater Treatment Plant	38,400	24,000	24,000				86,400	(86,400)
Restricted for Maintenance Reserve, Note 9				215,497			215,497	(215,497)
Assigned to:								
Debt service					366,461		366,461	(366,461)
Capital projects						728,116	728,116	(728,116)
Unassigned	1,752,707						1,752,707	(1,752,707)
Total fund balances	1,791,107	24,000	24,000	215,497	366,461	728,116	3,149,181	(3,149,181)
Total liabilities, deferred inflows, and fund balances	\$ 2,810,786	\$ 53,211	\$ 34,341	\$ 219,396	\$ 708,252	\$ 728,116	\$ 4,554,102	
Net position:								
Invested in capital assets, net of related debt							434,008	434,008
Restricted for debt service							215,497	215,497
Restricted for capital projects							337,148	337,148
Restricted for Maintenance Reserve							728,116	728,116
Unrestricted							1,800,665	1,800,665
Total net position							\$ 3,515,434	\$ 3,515,434

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

INVERNESS FOREST IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2020

	Special Revenue Funds						Total	Adjustments (Note 3)	Statement of Activities
	General Fund	Joint Water Plant	Joint Wastewater Treatment Plant	Flood Control Maintenance	Debt Service Fund	Capital Projects Fund			
REVENUES									
Property taxes	\$ 422,565	\$	\$	\$	\$ 293,170	\$	\$ 715,735	\$ 9,338	\$ 725,073
Water service	145,011						145,011		145,011
Sewer service	134,251						134,251		134,251
Surface water fees, Note 10	308,478						308,478		308,478
Security fees	87,031						87,031		87,031
Assessment fees	37,728						37,728		37,728
Penalty, interest, reconnection fees and other	11,810				9,103		20,913	2,160	23,073
From participants at joint facilities		442,004	127,688				569,692	(477,230)	92,462
Tap connection and inspection fees	68,630						68,630		68,630
Interest on deposits and investments	9,885			177	3,505		13,567		13,567
Total revenues	1,225,389	442,004	127,688	177	305,778	0	2,101,036	(465,732)	1,635,304
EXPENDITURES / EXPENSES									
Service operations:									
Purchased services, Note 11	477,230						477,230	(477,230)	0
Professional fees	139,576	1,100	1,100	7,433	3,065		152,274		152,274
Contracted services	26,858	12,586	14,741	11,220	13,646		79,051		79,051
Utilities		36,393	23,630	8,672			68,695		68,695
Surface water pumpage fees, Note 10		334,792					334,792		334,792
Repairs and maintenance	68,234	24,133	35,362	18,662			146,391		146,391
Other operating expenditures	11,718	28,959	45,300	3,137			89,114		89,114
Security service	76,248						76,248		76,248
Administrative expenditures	33,213	4,041	7,555	108	4,877		49,794		49,794
Depreciation							0	159,006	159,006
Capital outlay / non-capital outlay	97,485						97,485	(52,705)	44,780
Debt service:									
Principal retirement					170,000		170,000	(170,000)	0
Interest and fees					122,063		122,063	8,064	130,127
Total expenditures / expenses	930,562	442,004	127,688	49,232	313,651	0	1,863,137	(532,865)	1,330,272
Excess (deficiency) of revenues over expenditures	294,827	0	0	(49,055)	(7,873)	0	237,899	67,133	305,032

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

INVERNESS FOREST IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Special Revenue Funds</u>					Total	Adjustments (Note 3)	Statement of Activities	
	General Fund	Joint Water Plant	Joint Wastewater Treatment Plant	Flood Control Maintenance	Debt Service Fund				Capital Projects Fund
Excess (deficiency) of revenues over expenditures	294,827	0	0	(49,055)	(7,873)	0	237,899	67,133	305,032
OTHER FINANCING SOURCES (USES)									
Transfer to (from) other fund	(75,000)	0	0	75,000	0	0	0	0	0
Total other financing sources (uses)	(75,000)	0	0	75,000	0	0	0	0	0
Net change in fund balances / net position	219,827	0	0	25,945	(7,873)	0	237,899	67,133	305,032
Beginning of year	1,571,280	24,000	24,000	189,552	374,334	728,116	2,911,282	299,120	3,210,402
End of year	<u>\$ 1,791,107</u>	<u>\$ 24,000</u>	<u>\$ 24,000</u>	<u>\$ 215,497</u>	<u>\$ 366,461</u>	<u>\$ 728,116</u>	<u>\$ 3,149,181</u>	<u>\$ 366,253</u>	<u>\$ 3,515,434</u>

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

INVERNESS FOREST IMPROVEMENT DISTRICTNOTES TO THE FINANCIAL STATEMENTSDECEMBER 31, 2020

NOTE 1: REPORTING ENTITY

Inverness Forest Improvement District (the "District") was created by Acts of the 59th Legislature of the State of Texas, Regular Session, 1965, and operates in accordance with Texas Water Code Chapters 49 and 51 and other relevant Texas statutes. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on July 1, 1965, and the first bonds were sold on November 15, 1965. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Joint Water Plant Special Revenue Fund -- To account for all revenues and expenditures of the general operations of the Joint Water Plant Facilities.

Joint Wastewater Treatment Plant Special Revenue Fund -- To account for all revenues and expenditures of the general operations of the Joint Wastewater Treatment Plant Facilities.

Flood Control Maintenance Special Revenue Fund -- To account for all revenues and expenditures for the Flood Control Operation and Maintenance Contract described in Note 9.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$10,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

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

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 3,149,181
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		4,611,864
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (3,500,000)	
Deferred charge on refunding (to be amortized as interest expense)	33,283	
Issuance discount (to be amortized as interest expense)	61,052	
Due to developers	<u>(772,191)</u>	(4,177,856)
The assets in the special revenue fund are owned by the District and other participants in the Joint Venture:		
The District's equity	(38,400)	
Other participant's equity	<u>(9,600)</u>	(48,000)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	3,489	
Uncollected property taxes	<u>16,543</u>	20,032
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(39,787)</u>
Net position, end of year		<u>\$ 3,515,434</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ 237,899
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 52,705	
Depreciation	<u>(159,006)</u>	(106,301)
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Principal reduction		170,000
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(6,044)	
Issuance discount	<u>(3,154)</u>	(9,198)
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	2,160	
Uncollected property taxes	<u>9,338</u>	11,498
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>1,134</u>
Change in net position		<u>\$ 305,032</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 9,780	\$	\$	\$ 9,780
Construction in progress	<u>928,126</u>	<u> </u>	<u> </u>	<u>928,126</u>
Total capital assets not being depreciated	<u>937,906</u>	<u>0</u>	<u>0</u>	<u>937,906</u>
Depreciable capital assets:				
Water system	3,103,980			3,103,980
Sewer system	<u>4,285,312</u>	<u> </u>	<u> </u>	<u>4,285,312</u>
Total depreciable capital assets	<u>7,389,292</u>	<u>0</u>	<u>0</u>	<u>7,389,292</u>
Less accumulated depreciation for:				
Water system	(1,370,121)	(58,903)		(1,429,024)
Sewer system	<u>(2,186,207)</u>	<u>(100,103)</u>	<u> </u>	<u>(2,286,310)</u>
Total accumulated depreciation	<u>(3,556,328)</u>	<u>(159,006)</u>	<u>0</u>	<u>(3,715,334)</u>
Total depreciable capital assets, net	<u>3,832,964</u>	<u>(159,006)</u>	<u>0</u>	<u>3,673,958</u>
Total capital assets, net	<u>\$ 4,770,870</u>	<u>\$ (159,006)</u>	<u>\$ 0</u>	<u>\$ 4,611,864</u>
Changes to capital assets:				
Capital outlay		\$ 52,705	\$	
Capital outlay paid (decrease in liability) to developer		(52,705)		
Less depreciation expense for the fiscal year		<u>(159,006)</u>	<u> </u>	
Net increases / decreases to capital assets		<u>\$ (159,006)</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 3,670,000	\$	\$ 170,000	\$ 3,500,000	\$ 175,000
Add (less) deferred amounts:					
For issuance discounts	(64,206)		(3,154)	(61,052)	(3,411)
For refunding	<u>(39,327)</u>	<u> </u>	<u>(6,044)</u>	<u>(33,283)</u>	<u>(5,694)</u>
Total bonds payable	<u>3,566,467</u>	<u>0</u>	<u>160,802</u>	<u>3,405,665</u>	<u>165,895</u>
Due to developers (see below)	<u>824,896</u>	<u>0</u>	<u>52,705</u>	<u>772,191</u>	<u> </u>
Total long-term liabilities	<u>\$ 4,391,363</u>	<u>\$ 0</u>	<u>\$ 213,507</u>	<u>\$ 4,177,856</u>	<u>\$ 165,895</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Developer Construction Commitments and Liabilities

Developers within the District are currently constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developers for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at December 31, 2020, was \$772,191. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 175,000	\$ 117,394	\$ 292,394
2022	175,000	113,238	288,238
2023	180,000	108,575	288,575
2024	185,000	103,325	288,325
2025	190,000	97,700	287,700
2026 - 2030	1,075,000	385,663	1,460,663
2031 - 2035	495,000	254,111	749,111
2036 - 2040	725,000	134,187	859,187
2041 - 2042	<u>300,000</u>	<u>12,000</u>	<u>312,000</u>
	<u>\$ 3,500,000</u>	<u>\$ 1,326,193</u>	<u>\$ 4,826,193</u>

Bonds voted	\$ 12,930,000
Bonds approved for sale and sold	8,120,000
Bonds voted and not issued	4,810,000
Refunding bonds voted	*
Refunding bonds sold	0

*The District may issue refunding bonds in a principal amount not greater than the principal amount of one and one-half (1½) times the amount of bonds or indebtedness issued for any lawful purpose of the District, including the issuance of bonds sold at a substantial premium, without further authorization from the qualified voters of the District.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The bond issues payable at December 31, 2020, were as follows:

	<u>Refunding Series 2015</u>	<u>Series 2015A</u>
Amounts outstanding, December 31, 2020	\$1,980,000	\$1,520,000
Interest rates	2.25% to 3.625%	3.50% to 4.00%
Maturity dates, serially beginning/ending	March 1, 2021/2030	March 1, 2032/2042
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates	March 1, 2021*	March 1, 2021*

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District in inverse order of maturity.

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board.

The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders require that the District 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On October 20, 2020, the District levied the following ad valorem taxes for the 2020 tax year and the 2021 fiscal year on the adjusted taxable valuation of \$190,124,908:

	Rate	Amount
Debt service	\$ 0.1500	\$ 298,782
Maintenance	0.2900	577,645
	\$ 0.4400	\$ 876,427

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2020 tax year total property tax levy	\$ 876,427
2020 tax year total property tax levy deferred to 2021 fiscal year	(876,427)
2019 tax year total property tax levy deferred to 2020 fiscal year	723,174
Appraisal district adjustments to prior year taxes	1,899
Statement of Activities property tax revenues	\$ 725,073

NOTE 7: DEPOSITS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$2,982,865 and the bank balance was \$2,984,931. Of the bank balance, \$1,223,490 was covered by federal insurance and \$1,761,441 was covered by a letter of credit in favor of the District issued by the Federal Home Loan Bank of Atlanta.

Deposits restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest, paying agent fees and costs of assessing and collecting taxes:

Cash	\$ 234,324
Certificates of Deposit	257,000
	\$ 491,324

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital Projects Fund

For construction of capital assets:

Cash	<u>\$ 29,166</u>
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NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At December 31, 2020, the District had physical damage and boiler and machinery coverage of \$6,485,000, general liability coverage with a per occurrence limit of \$3,000,000 and \$6,000,000 general aggregate, pollution liability coverage of \$2,000,000, automobile liability coverage of \$2,000,000, consultant's crime coverage of \$500,000, a tax assessor-collector bond of \$50,000 and statutory worker's compensation coverage with the Texas Municipal League Intergovernmental Risk Pool (the "Pool"). The Pool is a public entity risk pool currently operating as a common risk management and insurance program for various Texas public entities. The District pays annual premiums for its general insurance coverage. The Pool purchases reinsurance for protection against catastrophic losses that exceed the Pool's self-insurance retention. This reinsurance is purchased from companies rated A- or higher by A. M. Best Company.

NOTE 9: FLOOD CONTROL OPERATION AND MAINTENANCE CONTRACT

On August 27, 1991, the District and the Harris County Flood Control District ("Flood Control") entered into an agreement whereby Flood Control would construct a levee to protect the residences within the District from flooding. The contract shall remain in effect so long as the levee is in place. Under the terms of the contract the District is to operate, maintain and repair the pumps, pump station building and related equipment. The District was not obligated to spend more than \$9,000 in 1992 for equipment replacement. This amount is to be adjusted by an index in future years. At December 31, 2020, the index-adjusted amount was \$15,695. The District is also to maintain the vegetation on the side slope of the levee facing the Inverness Forest Subdivision.

Commencing on the date Flood Control provided the District written notice that the levee was operational (June 22, 1993), the District is required to maintain in a separate reserve and have available at all times an amount of money (the "Maintenance Reserve") equal to the sum of (a) its estimated operating and maintenance expenses for the next succeeding forty-eight (48) months plus (b) ten percent (10%) of the face value of the insurance on the levee equipment, provided that such reserve shall never be less than \$150,000. The District has established the Maintenance Reserve as the Flood Control Maintenance Special Revenue Fund of the District. At December 31, 2020, the fund balance in the Maintenance Reserve was \$215,497.

The District has received information regarding unauthorized public use of the levee. The District believes unauthorized public use may damage or destroy the vegetation on the side slope of the levee maintained by the District, and result in damage to the structure of the levee. The District reported its concerns to Flood Control; and, following meetings with representatives of the District and Flood Control, Flood Control has erected "no trespassing" signs to notify the public that access to, and use of, the levee is prohibited.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 10: REGIONAL WATER AUTHORITY FEES

The North Harris County Regional Water Authority (the "Authority") was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2001. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of December 31, 2020, the Authority had established a well pumpage fee of \$4.25 per 1,000 gallons of water pumped from each regulated well. The District billed its customers \$308,478 during the fiscal year to pay for the fees charged by the Authority. The District's pumpage fees payable to the Authority are paid through the joint water plant as described in Note 11.

NOTE 11: JOINT FACILITIES AGREEMENT

On October 18, 2005, the District and Pine Forest Municipal Utility District ("Pine Forest") entered into a Joint Facilities Agreement. The term of the agreement is 40 years. Under the terms of the contract, the District sold 20% of the capacity in the District's water and wastewater treatment plants, as well as 20% of the District's Joint Wastewater Line and Joint Lift Station, which will service the two districts. The District received \$500,000 for this capacity. Pine Forest has constructed a Joint Water Line to service the two districts. The districts have agreed to upgrade and rehabilitate the Joint Facilities as described in the contract. Notwithstanding, Pine Forest is not required to reimburse the District for its share of construction costs until the earlier of: (1) the date at which Pine Forest issues its first series of bonds or (2) the date at which Pine Forest is reimbursed from other development in the District, as provided in the Joint Facilities Agreement. The District has expended \$120,263 for Pine Forest's share of the sanitary sewer rehabilitation, \$242,354 for Pine Forest's share of the wastewater treatment plant rehabilitation and \$336,333 for Pine Forest's share of water plant improvements. These amounts were due from Pine Forest at December 31, 2020, and will be paid under the terms of the Joint Facilities Agreement as stated above.

The District's Board of Directors is the manager of the Joint Facilities. The contract provides for the shared costs of operating the Joint Facilities. Pine Forest connected to the system in October 2016. The General Funds of the Joint Facilities are reported as the Joint Water Plant Special Revenue Fund and the Joint Wastewater Treatment Plant Special Revenue Fund. Costs are shared based upon capacity in the facilities and metered usage.

The District's costs for water purchased from the joint water plant was \$374,482 for the fiscal year ended December 31, 2020. At this date, the District had contributed \$19,200 of the joint water plant's \$24,000 operating reserve.

The District's costs for purchased sewer services from the joint wastewater treatment plant was \$102,748 for the fiscal year ended December 31, 2020. At this date, the District had contributed \$19,200 of the joint water plant's \$24,000 operating reserve.

INVERNESS FOREST IMPROVEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 403,350	\$ 403,350	\$ 422,565	\$ 19,215
Water service	136,450	136,450	145,011	8,561
Sewer service	134,500	134,500	134,251	(249)
Surface water fees	269,500	269,500	308,478	38,978
Security fees	82,350	82,350	87,031	4,681
Assessment fees	37,500	37,500	37,728	228
Penalty, interest, reconnection fees and other	20,000	20,000	11,810	(8,190)
Tap connection and inspection fees	25,000	25,000	68,630	43,630
Interest on deposits and investments	3,000	3,000	9,885	6,885
TOTAL REVENUES	<u>1,111,650</u>	<u>1,111,650</u>	<u>1,225,389</u>	<u>113,739</u>
EXPENDITURES				
Service operations:				
Purchased services	522,634	522,634	477,230	(45,404)
Professional fees	113,450	113,450	139,576	26,126
Contracted services	28,520	28,520	26,858	(1,662)
Repairs and maintenance	52,200	52,200	68,234	16,034
Other operating expenditures	35,970	35,970	11,718	(24,252)
Security service	85,850	85,850	76,248	(9,602)
Administrative expenditures	45,460	45,460	33,213	(12,247)
Capital outlay	71,468	71,468	97,485	26,017
TOTAL EXPENDITURES	<u>955,552</u>	<u>955,552</u>	<u>930,562</u>	<u>(24,990)</u>
EXCESS REVENUES (EXPENDITURES)	<u>156,098</u>	<u>156,098</u>	<u>294,827</u>	<u>138,729</u>
OTHER FINANCING SOURCES (USES)				
Transfer (to)/from other fund	(75,000)	(75,000)	(75,000)	0
TOTAL OTHER FINANCIAL SOURCES (USES)	<u>(75,000)</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>0</u>
EXCESS SOURCES (USES)	81,098	81,098	219,827	138,729
FUND BALANCE, BEGINNING OF YEAR	<u>1,571,280</u>	<u>1,571,280</u>	<u>1,571,280</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,652,378</u>	<u>\$ 1,652,378</u>	<u>\$ 1,791,107</u>	<u>\$ 138,729</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL,
JOINT WATER PLANT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From participants:				
Inverness Forest Improvement District	\$ 365,593	\$ 365,593	\$ 374,482	\$ 8,889
Pine Forest Municipal Utility District	40,622	40,622	67,522	26,900
Interest on deposits and investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL REVENUES	<u>406,215</u>	<u>406,215</u>	<u>442,004</u>	<u>35,789</u>
EXPENDITURES				
Service operations:				
Professional fees	3,600	3,600	1,100	(2,500)
Contracted services	12,520	12,520	12,586	66
Utilities	36,400	36,400	36,393	(7)
Surface water fees	293,000	293,000	334,792	41,792
Repairs and maintenance	35,000	35,000	24,133	(10,867)
Other operating expenditures	21,450	21,450	28,959	7,509
Administrative expenditures	<u>4,245</u>	<u>4,245</u>	<u>4,041</u>	<u>(204)</u>
TOTAL EXPENDITURES	<u>406,215</u>	<u>406,215</u>	<u>442,004</u>	<u>35,789</u>
EXCESS REVENUES (EXPENDITURES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE, BEGINNING OF YEAR	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 24,000</u>	<u>\$ 24,000</u>	<u>\$ 24,000</u>	<u>\$ 0</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL,
JOINT WASTEWATER TREATMENT PLANT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From participants:				
Inverness Forest Improvement District	\$ 157,041	\$ 157,041	\$ 102,748	\$ (54,293)
Pine Forest Municipal Utility District	39,260	39,260	24,940	(14,320)
Interest on deposits and investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL REVENUES	<u>196,301</u>	<u>196,301</u>	<u>127,688</u>	<u>(68,613)</u>
EXPENDITURES				
Service operations:				
Professional fees	7,400	7,400	1,100	(6,300)
Contracted services	14,680	14,680	14,741	61
Utilities	25,000	25,000	23,630	(1,370)
Repairs and maintenance	95,000	95,000	35,362	(59,638)
Other operating expenditures	47,200	47,200	45,300	(1,900)
Administrative expenditures	<u>7,021</u>	<u>7,021</u>	<u>7,555</u>	<u>534</u>
TOTAL EXPENDITURES	<u>196,301</u>	<u>196,301</u>	<u>127,688</u>	<u>(68,613)</u>
EXCESS REVENUES (EXPENDITURES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE, BEGINNING OF YEAR	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 24,000</u>	<u>\$ 24,000</u>	<u>\$ 24,000</u>	<u>\$ 0</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL,
FLOOD CONTROL MAINTENANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest on deposits and investments	\$ 400	\$ 400	\$ 177	\$ (223)
TOTAL REVENUES	<u>400</u>	<u>400</u>	<u>177</u>	<u>(223)</u>
EXPENDITURES				
Service operations:				
Professional fees	5,000	5,000	7,433	2,433
Contracted services	11,220	11,220	11,220	0
Utilities	7,550	7,550	8,672	1,122
Repairs and maintenance	35,000	35,000	18,662	(16,338)
Other operating expenditures	2,200	2,200	3,137	937
Administrative expenditures	400	400	108	(292)
TOTAL EXPENDITURES	<u>61,370</u>	<u>61,370</u>	<u>49,232</u>	<u>(12,138)</u>
EXCESS REVENUES (EXPENDITURES)	<u>(60,970)</u>	<u>(60,970)</u>	<u>(49,055)</u>	<u>11,915</u>
OTHER FINANCING SOURCES (USES)				
Transfer (to)/from other fund	75,000	75,000	75,000	0
TOTAL OTHER FINANCIAL SOURCES (USES)	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>	<u>0</u>
EXCESS SOURCES (USES)	14,030	14,030	25,945	11,915
FUND BALANCE, BEGINNING OF YEAR	<u>189,552</u>	<u>189,552</u>	<u>189,552</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 203,582</u>	<u>\$ 203,582</u>	<u>\$ 215,497</u>	<u>\$ 11,915</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
DECEMBER 31, 2020

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

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

INVERNESS FOREST IMPROVEMENT DISTRICT

SCHEDULE OF SERVICES AND RATES

DECEMBER 31, 2020

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$8.00	3,000	N	\$0.85	3,001 to 20,000
				1.10	20,001 to 35,000
				1.60	35,001 to 50,000
				2.50	Over 50,000
WASTEWATER:	\$14.00		Y		

SURCHARGE: \$4.68 per 1,000 gallons of water used. – NHCRWA surface water fees.
 0.50 % of monthly billing -- TCEQ assessment fees.
 4.00 per customer – maintenance assessment.
 7.00 per customer – security fee.

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$13.95 Wastewater: \$14.00 Surcharge: \$57.94

INVERNESS FOREST IMPROVEMENT DISTRICT
SCHEDULE OF SERVICES AND RATES (Continued)
DECEMBER 31, 2020

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	474	461	1.0	461
1"	37	36	2.5	90
1-1/2"	5	5	5.0	25
2"	12	12	8.0	96
3"	0	0	15.0	0
4"	0	0	25.0	0
6"	5	5	50.0	250
8"	2	2	80.0	160
10"	0	0	115.0	0
Total Water	<u>535</u>	<u>521</u>		<u>1,082</u>
Total Wastewater	<u>533</u>	<u>519</u>	1.0	<u>519</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 81,993
 Gallons billed to customers (unaudited): 77,029

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 94%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, date of the most recent Commission Order: _____

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

If yes, date of the most recent Commission Order: _____

INVERNESS FOREST IMPROVEMENT DISTRICT

EXPENDITURES

FOR THE YEAR ENDED DECEMBER 31, 2020

	General Fund	Joint WP Special Revenue Fund	Joint WWTP Special Revenue Fund	Flood Control Maintenance Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Totals (Memorandum Only)
CURRENT							
Purchased services:							
Water	\$ 374,482	\$	\$	\$	\$	\$	\$ 374,482
Sewer	102,748						102,748
	<u>477,230</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>477,230</u>
Professional fees:							
Auditing	10,950	1,100	1,100				13,150
Legal	98,192				3,065		101,257
Engineering	29,219			7,433			36,652
Financial advisor	1,215						1,215
	<u>139,576</u>	<u>1,100</u>	<u>1,100</u>	<u>7,433</u>	<u>3,065</u>	<u>0</u>	<u>152,274</u>
Contracted services:							
Bookkeeping	11,530	4,066	4,061				19,657
Operation and billing	15,328	8,520	10,680	11,220			45,748
Tax assessor-collector					8,107		8,107
Central appraisal district					5,539		5,539
	<u>26,858</u>	<u>12,586</u>	<u>14,741</u>	<u>11,220</u>	<u>13,646</u>	<u>0</u>	<u>79,051</u>
Utilities	<u>0</u>	<u>36,393</u>	<u>23,630</u>	<u>8,672</u>	<u>0</u>	<u>0</u>	<u>68,695</u>
Surface water pumpage fees	<u>0</u>	<u>334,792</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>334,792</u>
Repairs and maintenance	<u>68,234</u>	<u>24,133</u>	<u>35,362</u>	<u>18,662</u>	<u>0</u>	<u>0</u>	<u>146,391</u>
Other operating expenditures:							
Sludge hauling			15,990				15,990
Chemicals	3,125	2,029	2,748				7,902
Laboratory costs	1,225	373	17,273				18,871
Reconnection and transfer costs	5,467						5,467
TCEQ assessment	1,331						1,331
Other	570	26,557	9,289	3,137			39,553
	<u>11,718</u>	<u>28,959</u>	<u>45,300</u>	<u>3,137</u>	<u>0</u>	<u>0</u>	<u>89,114</u>
Security service	<u>76,248</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>76,248</u>
Administrative expenditures:							
Director's fees	6,200						6,200
Insurance	11,260	3,397	4,198		375		19,230
Permit fees	1,962		3,357				5,319
Other	13,791	644		108	4,502		19,045
	<u>33,213</u>	<u>4,041</u>	<u>7,555</u>	<u>108</u>	<u>4,877</u>	<u>0</u>	<u>49,794</u>

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICTEXPENDITURES (Continued)FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>General Fund</u>	<u>Joint WP Special Revenue Fund</u>	<u>Joint WWTP Special Revenue Fund</u>	<u>Flood Control Maintenance Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY							
Authorized expenditures	\$ 52,705	\$	\$	\$	\$	\$	\$ 52,705
Tap connection costs	44,780						44,780
	<u>97,485</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>97,485</u>
DEBT SERVICE							
Principal retirement	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	170,000	<u>0</u>	<u>170,000</u>
Interest and fees:					121,063		121,063
Interest					1,000		1,000
Paying agent fees	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>122,063</u>	<u>0</u>	<u>122,063</u>
TOTAL EXPENDITURES	<u>\$ 930,562</u>	<u>\$ 442,004</u>	<u>\$ 127,688</u>	<u>\$ 49,232</u>	<u>\$ 313,651</u>	<u>\$ 0</u>	<u>\$1,863,137</u>

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT

ANALYSIS OF CHANGES IN DEPOSITS,
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>General Fund</u>	<u>Joint Water Plant Special Revenue Fund</u>	<u>Joint Wastewater Treatment Plant Special Revenue Fund</u>	<u>Flood Control Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS							
Cash receipts from revenues excluding maintenance taxes	\$ 844,535	\$ 440,933	\$ 129,970	\$ 177	\$ 318,487	\$	\$ 1,734,102
Maintenance tax collections					482,166		482,166
Maintenance tax transfers	489,585						489,585
Transfer from other fund				75,000			75,000
Developer deposits	5,523						5,523
Increase in customer deposits	<u>12,640</u>						<u>12,640</u>
TOTAL DEPOSITS PROVIDED	<u>1,352,283</u>	<u>440,933</u>	<u>129,970</u>	<u>75,177</u>	<u>800,653</u>	<u>0</u>	<u>2,799,016</u>
APPLICATIONS OF DEPOSITS							
Cash disbursements for:							
Current expenditures	861,559	440,829	126,111	57,943	21,160		1,507,602
Capital outlay	97,485						97,485
Debt service					292,063		292,063
Transfer to other fund	75,000						75,000
Maintenance tax transfers					489,585		489,585
TOTAL DEPOSITS APPLIED	<u>1,034,044</u>	<u>440,829</u>	<u>126,111</u>	<u>57,943</u>	<u>802,808</u>	<u>0</u>	<u>2,461,735</u>
INCREASE (DECREASE) IN DEPOSITS	318,239	104	3,859	17,234	(2,155)	0	337,281
DEPOSITS, BEGINNING OF YEAR	<u>1,886,993</u>	<u>15,643</u>	<u>18,141</u>	<u>202,162</u>	<u>493,479</u>	<u>29,166</u>	<u>2,645,584</u>
DEPOSITS AND BALANCES, END OF YEAR	<u>\$ 2,205,232</u>	<u>\$ 15,747</u>	<u>\$ 22,000</u>	<u>\$ 219,396</u>	<u>\$ 491,324</u>	<u>\$ 29,166</u>	<u>\$ 2,982,865</u>

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICTSCHEDULE OF CERTIFICATES OF DEPOSITDECEMBER 31, 2020

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificates of Deposit				
No. 679089602	0.10%	4/29/21	\$ 245,000	\$ 48
No. 311001510	0.25%	4/20/21	200,000	99
No. 1002035798	0.30%	6/18/21	<u>200,000</u>	<u>21</u>
			<u>\$ 645,000</u>	<u>\$ 168</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 3300041534	0.35%	2/20/21	\$ 57,000	\$ 73
No. 66000540	0.35%	2/20/21	<u>200,000</u>	<u>255</u>
			<u>\$ 257,000</u>	<u>\$ 328</u>
Total – All Funds			<u>\$ 902,000</u>	<u>\$ 496</u>

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 318,253	\$ 221,254
Additions and corrections to prior year taxes	<u>1,082</u>	<u>817</u>
Adjusted receivable, beginning of year	319,335	222,071
2020 ADJUSTED TAX ROLL	<u>577,645</u>	<u>298,782</u>
Total to be accounted for	896,980	520,853
Tax collections: Current tax year	(172,390)	(89,167)
Prior tax years	<u>(309,776)</u>	<u>(215,086)</u>
RECEIVABLE, END OF YEAR	<u>\$ 414,814</u>	<u>\$ 216,600</u>
RECEIVABLE, BY TAX YEAR		
2016	\$ 55	\$ 59
2017	18	18
2018	1,542	1,408
2019	7,944	5,500
2020	<u>405,255</u>	<u>209,615</u>
RECEIVABLE, END OF YEAR	<u>\$ 414,814</u>	<u>\$ 216,600</u>

Fiscal year 2020 General Fund property tax revenue of \$422,565 under the modified accrual basis of accounting is comprised of prior tax year collections of \$309,776 during fiscal year 2020 and 2019 tax year collections of \$112,789 during fiscal year 2019.

Fiscal year 2020 Debt Service Fund property tax revenue of \$293,170 under the modified accrual basis of accounting is comprised of prior tax year collections of \$215,086 during fiscal year 2020 and 2019 tax year collections of \$78,084 during fiscal year 2019.

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT
TAXES LEVIED AND RECEIVABLE (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2020

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land	\$ 56,626,783	\$ 51,377,542	\$ 47,289,688	\$ 44,055,516
Improvements	128,392,289	112,270,178	106,729,785	103,091,081
Personal property	38,182,873	30,984,600	20,289,153	18,935,679
Less exemptions	<u>(33,077,037)</u>	<u>(29,993,521)</u>	<u>(19,402,513)</u>	<u>(19,655,604)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 190,124,908</u>	 <u>\$ 164,638,799</u>	 <u>\$ 154,906,113</u>	 <u>\$ 146,426,672</u>
TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.15000	\$ 0.18000	\$ 0.21000	\$ 0.22000
Maintenance tax rates*	<u>0.29000</u>	<u>0.26000</u>	<u>0.23000</u>	<u>0.22000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.44000</u>	 <u>\$ 0.44000</u>	 <u>\$ 0.44000</u>	 <u>\$ 0.44000</u>
TAX ROLLS	<u>\$ 876,427</u>	<u>\$ 724,411</u>	<u>\$ 682,093</u>	<u>\$ 645,434</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>29.8%**</u>	<u>98.1 %</u>	<u>99.5 %</u>	<u>99.9 %</u>

*Maximum tax rate approved by voters on May 4, 1981: \$0.52

**The District's taxes are usually levied in the fall and are not delinquent until after the following January 31.

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
DECEMBER 31, 2020

<u>Due During Fiscal Years Ending December 31</u>	<u>Series 2015</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2021	\$ 175,000	\$ 59,694	\$ 234,694
2022	175,000	55,538	230,538
2023	180,000	50,875	230,875
2024	185,000	45,625	230,625
2025	190,000	40,000	230,000
2026	200,000	33,900	233,900
2027	210,000	27,106	237,106
2028	215,000	19,800	234,800
2029	220,000	12,188	232,188
2030	230,000	4,169	234,169
TOTALS	<u>\$ 1,980,000</u>	<u>\$ 348,895</u>	<u>\$ 2,328,895</u>

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

DECEMBER 31, 2020

<u>Due During Fiscal Years Ending December 31</u>	<u>Series 2015A</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2021	\$	\$ 57,700	\$ 57,700
2022		57,700	57,700
2023		57,700	57,700
2024		57,700	57,700
2025		57,700	57,700
2026		57,700	57,700
2027		57,700	57,700
2028		57,700	57,700
2029		57,700	57,700
2030		57,700	57,700
2031		57,700	57,700
2032	120,000	55,600	175,600
2033	125,000	51,312	176,312
2034	125,000	46,937	171,937
2035	125,000	42,562	167,562
2036	125,000	38,187	163,187
2037	150,000	33,000	183,000
2038	150,000	27,000	177,000
2039	150,000	21,000	171,000
2040	150,000	15,000	165,000
2041	150,000	9,000	159,000
2042	150,000	3,000	153,000
TOTALS	<u>\$ 1,520,000</u>	<u>\$ 977,298</u>	<u>\$ 2,497,298</u>

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

DECEMBER 31, 2020

<u>Due During Fiscal Years Ending December 31</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2021	\$ 175,000	\$ 117,394	\$ 292,394
2022	175,000	113,238	288,238
2023	180,000	108,575	288,575
2024	185,000	103,325	288,325
2025	190,000	97,700	287,700
2026	200,000	91,600	291,600
2027	210,000	84,806	294,806
2028	215,000	77,500	292,500
2029	220,000	69,888	289,888
2030	230,000	61,869	291,869
2031	0	57,700	57,700
2032	120,000	55,600	175,600
2033	125,000	51,312	176,312
2034	125,000	46,937	171,937
2035	125,000	42,562	167,562
2036	125,000	38,187	163,187
2037	150,000	33,000	183,000
2038	150,000	27,000	177,000
2039	150,000	21,000	171,000
2040	150,000	15,000	165,000
2041	150,000	9,000	159,000
2042	150,000	3,000	153,000
	<u>\$ 3,500,000</u>	<u>\$ 1,326,193</u>	<u>\$ 4,826,193</u>
TOTALS	<u>\$ 3,500,000</u>	<u>\$ 1,326,193</u>	<u>\$ 4,826,193</u>

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED DECEMBER 31, 2020

	(1)	(2)	Totals
Bond Series:	2015	2015A	
Interest Rate:	2.25% to 3.625%	3.50% to 4.00%	
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	
Maturity Dates:	March 1, 2021/2030	March 1, 2032/2042	
Bonds Outstanding at Beginning of Current Year	\$ 2,150,000	\$ 1,520,000	\$ 3,670,000
Less Retirements	(170,000)	0	(170,000)
Bonds Outstanding at End of Current Year	\$ 1,980,000	\$ 1,520,000	\$ 3,500,000
Current Year Interest Paid	\$ 63,363	\$ 57,700	\$ 121,063

Bond Descriptions and Original Amount of Issue

- (1) Inverness Forest Improvement District Combination Unlimited Tax and Revenue Refunding Bonds, Series 2015 (\$2,655,000)
- (2) Inverness Forest Improvement District Combination Unlimited Tax and Revenue Bonds, Series 2015A (\$1,520,000)

Paying Agent/Registrar

(1) (2) Amegy Bank National Association, Houston, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 12,930,000	\$ 0	See Note 5
Amount Issued:	8,120,000		0
Remaining to be Issued:	4,810,000		

Net Debt Service Fund deposits and investments balances as of December 31, 2020:	\$366,461
Average annual debt service payment for remaining term of all debt:	219,372

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED DECEMBER 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
REVENUES										
Property taxes	\$ 422,565	\$ 354,453	\$ 322,025	\$ 291,785	\$ 245,540	34.4 %	22.1 %	30.9 %	31.8 %	28.6 %
Water service	145,011	131,603	131,988	128,521	127,391	11.8	8.2	12.7	14.0	14.9
Sewer service	134,251	131,618	131,862	128,915	129,178	11.0	8.2	12.6	14.0	15.1
Surface water fees	308,478	265,291	240,013	202,149	173,019	25.2	16.6	23.0	22.0	20.2
Security fees	87,031	83,136	79,335	73,353	70,014	7.1	5.2	7.6	8.0	8.2
Assessment fees	37,728	37,523	37,077	36,896	36,820	3.1	2.3	3.6	4.0	4.3
Penalty, reconnection fees and other	11,810	27,907	14,445	13,539	15,546	1.0	1.7	1.4	1.5	1.8
Tap connection and inspection fees	68,630	554,015	76,395	38,281	55,650	5.6	34.6	7.3	4.2	6.5
Interest on deposits and investments	9,885	17,304	9,294	4,832	3,824	0.8	1.1	0.9	0.5	0.4
TOTAL REVENUES	1,225,389	1,602,850	1,042,434	918,271	856,982	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Purchased services	477,230	475,954	467,833	502,420	114,434	38.8	29.7	44.9	54.8	13.3
Professional fees	139,576	139,060	135,173	134,710	105,123	11.4	8.7	13.0	14.7	12.3
Contracted services	26,858	26,967	27,314	44,308	41,146	2.2	1.7	2.6	4.8	4.8
Utilities	0	0	0	0	47,866	0.0	0.0	0.0	0.0	5.6
Surface water pumpage fees	0	0	0	0	107,757	0.0	0.0	0.0	0.0	12.6
Repairs and maintenance	68,234	51,261	78,830	41,918	116,663	5.6	3.2	7.6	4.6	13.5
Other operating expenditures	11,718	11,432	15,885	11,007	43,558	1.0	0.7	1.5	1.2	5.1
Security service	76,248	85,100	85,320	85,420	84,545	6.2	5.3	8.2	9.3	9.9
Administrative expenditures	33,213	24,151	23,646	17,878	40,733	2.7	1.5	2.3	1.9	4.8
Capital outlay	97,485	236,182	64,087	49,895	21,175	8.0	14.7	6.1	5.4	2.5
TOTAL EXPENDITURES	930,562	1,050,107	898,088	887,556	723,000	75.9	65.5	86.2	96.7	84.4
EXCESS REVENUES (EXPENDITURES)	\$ 294,827	\$ 552,743	\$ 144,346	\$ 30,715	\$ 133,982	24.1 %	34.5 %	13.8 %	3.3 %	15.6 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	521	520	505	500	495					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	519	518	503	498	493					

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND
FOR YEARS ENDED DECEMBER 31

	<u>AMOUNT</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
REVENUES										
Property taxes	\$ 293,170	\$ 323,784	\$ 322,142	\$ 318,422	\$ 322,473	95.9 %	95.4 %	95.3 %	97.1 %	98.3 %
Penalty and interest	9,103	9,946	11,660	7,750	5,183	3.0	2.9	3.5	2.4	1.6
Interest on deposits	3,505	5,875	4,168	1,574	453	1.1	1.7	1.2	0.5	0.1
TOTAL REVENUES	<u>305,778</u>	<u>339,605</u>	<u>337,970</u>	<u>327,746</u>	<u>328,109</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Professional fees	3,065	3,097	5,447	2,242	2,249	1.0	0.9	1.6	0.7	0.7
Contracted services	13,646	12,869	12,820	14,147	11,984	4.5	3.8	3.8	4.3	3.7
Other expenditures	4,877	4,044	3,517	1,931	5,718	1.6	1.2	1.0	0.6	1.7
Debt service:										
Principal retirement	170,000	160,000	160,000	160,000	135,000	55.6	47.1	47.4	48.8	41.1
Interest and fees	122,063	125,363	128,563	131,763	144,572	39.9	36.9	38.0	40.2	44.1
TOTAL EXPENDITURES	<u>313,651</u>	<u>305,373</u>	<u>310,347</u>	<u>310,083</u>	<u>299,523</u>	<u>102.6</u>	<u>89.9</u>	<u>91.8</u>	<u>94.6</u>	<u>91.3</u>
	<u>\$ (7,873)</u>	<u>\$ 34,232</u>	<u>\$ 27,623</u>	<u>\$ 17,663</u>	<u>\$ 28,586</u>	<u>(2.6) %</u>	<u>10.1 %</u>	<u>8.2 %</u>	<u>5.4 %</u>	<u>8.7 %</u>

INVERNESS FOREST IMPROVEMENT DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

DECEMBER 31, 2020

Complete District Mailing Address: Inverness Forest Improvement District
c/o Radcliffe Bobbitt Adams Polley PLLC
2929 Allen Parkway, Suite 3450
Houston, Texas 77019

District Business Telephone No.: 713-237-1221

Submission date of the most recent District Registration Form: February 3, 2021

Limit on Fees of Office that a Director may receive during a fiscal year: \$6,000

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Charles Pritchard c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 11/06/18- 11/01/22	\$ 1,500	\$ 0	President
Jewel DeBardelaben c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 11/03/20- 11/02/24	1,100	0	Vice President
Gary Portzline c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 11/03/20- 11/02/24	1,500	0	Secretary
Don Townsend c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 11/06/18- 11/01/22	1,600	0	Assistant Secretary
Dale Speas c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Appointed 8/18/20- 11/01/22	200	0	Director

See accompanying independent auditor's report.

INVERNESS FOREST IMPROVEMENT DISTRICT

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

DECEMBER 31, 2020

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	6/01/01	\$ 106,128	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 North Loop West, Suite 600 Houston, Texas 77008	5/07/96	3,065	Delinquent Tax Attorney
L & S District Services P.O. Box 80 Tomball, Texas 77377	12/19/89	19,656	Bookkeeper
H2O Innovation, Inc. P.O. Box 1209 Houston, Texas 77373	1/10/73	291,202	Operator
Langford Engineering, Inc. 1080 West Sam Houston Beltway North Suite 200 Houston, Texas 77043	1/19/99	36,652	Engineer
Equi-Tax, Inc. P.O. Box 73109 Houston, Texas 77273	12/10/73	11,118	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	5,539	Central Appraisal District
The GMS Group, L.L.C. 5075 Westheimer, Suite 1175 Houston, Texas 77056	8/19/03	1,215	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	Prior to 1992	13,178	Independent Auditor

See accompanying independent auditor's report.

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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