

OFFICIAL STATEMENT DATED JULY 20, 2023

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND INTEREST ON THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS; HOWEVER, SUCH INTEREST IS TAKEN INTO ACCOUNT IN DETERMINING THE ANNUAL ADJUSTED FINANCIAL STATEMENT INCOME OF APPLICABLE CORPORATIONS FOR THE PURPOSE OF DETERMINING THE ALTERNATIVE MINIMUM TAX IMPOSED ON CORPORATIONS. SEE "TAX MATTERS" FOR A DISCUSSION OF BOND COUNSEL'S OPINION.

The Bonds are not "qualified tax-exempt obligations" for financial institutions.

NEW ISSUE – Book Entry Only

S&P Global Ratings (BAM Insured) "AA"
See "MUNICIPAL BOND INSURANCE" and "MUNICIPAL BOND RATING."

\$14,250,000

HARRIS-WALLER COUNTIES MUNICIPAL UTILITY DISTRICT NO. 4

(A Political Subdivision of the State of Texas, located within Harris and Waller Counties)

CONTRACT REVENUE BONDS, SERIES 2023

Dated: August 1, 2023

Interest Accrues from: Date of Delivery

Due: November 1, as shown on inside cover

The \$14,250,000 Contract Revenue Bonds, Series 2023 (the "Bonds"), are special obligations of Harris-Waller Counties Municipal Utility District No. 4 (the "Regional District") payable solely from and to the extent of payments contractually required of Harris-Waller Counties Municipal Utility District No. 4, Harris-Waller Counties Municipal Utility District No. 5, Waller County Municipal Utility District No. 37, Harris County Municipal Utility District No. 569, and Waller County Municipal Utility District No. 35 (collectively, the "Participants") within the Service Area (herein defined) from proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by each Participant on all taxable property within the boundaries of each respective Participant or from other revenues lawfully available to such Participant (the "Contract Payments"). Payment of the Contract Payments by the Participants and use of such proceeds by the Regional District to pay debt service on the Bonds is governed by the Regional District Contract (herein defined) as described more fully under "REGIONAL DISTRICT CONTRACT." The Bonds are special obligations of the Regional District payable solely from the Contract Payments and are not obligations of the State of Texas; Harris County, Texas; Waller County, Texas; the City of Houston, Texas; any of the Participants (except the Regional District); or any entity other than the Regional District.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrars, initially, BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"). The Bonds are dated August 1, 2023 (the "Dated Date"), and will accrue interest from the initial date of delivery, which is expected to be on or about August 22, 2023 (the "Date of Delivery"), with interest payable May 1, 2024, and on each November 1 and May 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date and mailed by the Paying Agent/Registrar to the registered owners ("Registered Owners") as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding each Interest Payment Date (the "Record Date"). The Bonds are fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof.

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

See "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on inside cover.

The Bonds, when issued, will constitute valid and legally binding obligations of the Regional District and will be payable from the Contract Payments, as further described herein. See "THE BONDS – Source of Payment."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM")**.



Investment in the Bonds is subject to certain risk factors as described herein. Prospective purchasers should review this entire Official Statement, including particularly the section of this Official Statement entitled "RISK FACTORS," before making an investment decision. See "RISK FACTORS."

The Bonds are offered subject to prior sale, when, as and if issued by the Regional District and accepted by the winning bidder for the Bonds (the "Initial Purchaser"), subject to the approval of the Attorney General of Texas and of Allen Boone Humphries Robinson LLP, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about August 22, 2023.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS

\$14,250,000 Contract Revenue Bonds, Series 2023

\$10,580,000 Serial Bonds

Maturity (November 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (November 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2025	\$310,000	6.500%	3.500%	41464C CC8	2041 (c)	\$650,000	4.000%	4.180%	41464C CU8
2026	325,000	6.500%	3.400%	41464C CD6	2042 (c)	680,000	4.000%	4.210%	41464C CV6
2027	340,000	6.500%	3.350%	41464C CE4	2043 (c)	710,000	4.000%	4.240%	41464C CW4
2028	355,000	6.500%	3.350%	41464C CF1	2044 (c)	745,000	4.125%	4.270%	41464C CX2
****	****	****	****	****	2045 (c)	780,000	4.125%	4.300%	41464C CY0
2034 (c)	470,000	4.000%	3.700%	41464C CM6	2046 (c)	820,000	4.125%	4.330%	41464C CZ7
2035 (c)	490,000	4.000%	3.800%	41464C CN4	2047 (c)	855,000	4.250%	4.360%	41464C DA1
****	****	****	****	****	2048 (c)	900,000	4.250%	4.380%	41464C DB9
2039 (c)	590,000	4.000%	4.100%	41464C CS3	2049 (c)	940,000	4.250%	4.400%	41464C DC7
2040 (c)	620,000	4.000%	4.140%	41464C CT1					

\$3,670,000 Term Bonds

\$2,050,000 Term Bonds Due November 1, 2033 (c) (d), Interest Rate: 6.500% (Price: \$119.997) (a), CUSIP No. 41464C CL8 (b)

\$1,620,000 Term Bonds Due November 1, 2038 (c) (d), Interest Rate: 4.000% (Price: \$100.000) (a), CUSIP No. 41464C CR5 (b)

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- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser (defined below). Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on November 1, 2031, and thereafter, shall be subject to redemption and payment at the option of the Regional District, in whole or from time to time in part on November 1, 2030, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption of the Bonds – *Optional Redemption*."
- (d) Subject to mandatory redemption as set forth herein under "THE BONDS – Redemption of the Bonds – *Mandatory Redemption*."

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 Regional District or the Initial Purchaser.

All of the summaries of the statutes, resolutions, orders, contracts, audits, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are available from Bond Counsel, for further information.

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

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

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the Regional District has accepted the bid resulting in the lowest net effective interest rate to the Regional District, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown on the inside cover under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" at a price of 97.000000%% of the par value thereof, which resulted in a net effective interest rate of 4.514081%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

The Regional District has no control over the reoffering yields or prices of the Bonds or 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 prices of the Bonds may be greater than the difference between the bid and asked prices of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold, or traded in the secondary market.

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

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS 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 SEC under the Securities Act of 1933 in reliance upon 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 acts of any other jurisdictions. The Regional District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should 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.

Delivery of Official Statements

The Regional District shall furnish to the Initial Purchaser (and to each participating underwriter of the Bonds, within the meaning of the Rule, designated by the Initial Purchaser), within seven (7) business days after the sale date, the aggregate number of Official Statements agreed upon between the Regional District and the Initial Purchaser. The Regional District also shall furnish to the Initial Purchaser a like number of any supplements or amendments approved and authorized for distribution by the Regional District for dissemination to potential underwriters of the Bonds, as well as such additional copies of this Official Statement or any such supplements or amendments as the Initial Purchaser may reasonably request prior to the 90th day after the end of the underwriting period described in the Rule. The Regional District shall pay the expense of preparing the number

of copies of this Official Statement agreed upon between the Regional District and the Initial Purchaser and an equal number of any supplements or amendments issued on or before the delivery date, but the Initial Purchaser shall pay for all other copies of this Official Statement or any supplement or amendment thereto.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, BAM will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as "APPENDIX C."

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section 6901 of the New York Insurance Law, which are most often issued by states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2023, and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$476.6 million, \$196.7 million, and \$279.9 million, respectively.

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

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

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure

contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under "MUNICIPAL BOND INSURANCE."

Additional Information Available from BAM

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

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

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

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

MUNICIPAL BOND RATING

The Bonds will receive an insured rating of "AA" from S&P solely in reliance upon the issuance of the municipal bond insurance policy by BAM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant.

The Regional District is not aware of any rating assigned to the Bonds other than the rating of S&P.

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OFFICIAL STATEMENT SUMMARY

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

THE BONDS

The IssuerHarris-Waller Counties Municipal Utility District No. 4 (the “Regional District” or, in its capacity as a Participant (herein defined), “MUD 4”), a political subdivision of the State of Texas, is located in Harris and Waller Counties, Texas. See “THE REGIONAL DISTRICT.”

The BondsThe \$14,250,000 Contract Revenue Bonds, Series 2023 (the “Bonds”), are dated August 1, 2023, and mature on November 1 in the years and in the principal amounts as shown on the inside cover page hereof. The Bonds will accrue interest from the initial date of delivery, which is expected to be on or about August 22, 2023 (the “Date of Delivery”), with interest payable May 1, 2024, and on each November 1 and May 1 thereafter until the earlier of stated maturity or redemption. See “THE BONDS.”

Redemption of the BondsThe Bonds that mature on or after November 1, 2031, are subject to redemption, in whole or from time to time in part, on November 1, 2030, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See “THE BONDS – Redemption of the Bonds – *Optional Redemption*.” The Bonds that mature on November 1, 2033, and on November 1, 2038, are term bonds that are also subject to the mandatory redemption provisions as set out herein under “THE BONDS – Redemption of the Bonds – *Mandatory Redemption*.”

Book-Entry-Only System.....The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners (herein defined) thereof. Principal of and interest on the Bonds will be payable by BOKF, NA, Dallas, Texas (the “Paying Agent/Registrar”), to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “THE BONDS – Book-Entry-Only System.”

Source of PaymentPrincipal of and interest on the Bonds are payable from and secured by payments required of the Participants (herein defined) within the Service Area (herein defined) from proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by each Participant on all taxable property within the boundaries of each respective Participant or from other revenues lawfully available to such Participant (the “Contract Payments”).

The Regional District has established a debt service fund to pay the principal of and interest on the Contract Revenue System Bonds (herein defined), such as the Bonds (the “Contract Revenue System

Debt Service Fund”). The Regional District has also established a debt service fund (the “Contract Revenue Road Debt Service Fund”) to pay the principal of and interest on the Contract Revenue Road Bonds (herein defined).

Contract Payments by Participants and use of such proceeds by the Regional District to pay debt service on the Bonds is governed by the Contract for Financing, Operation, and Maintenance of Regional Facilities (the “Regional District Contract”) which has been entered into by the Regional District and the Participants. By execution of the Regional District Contract, each Participant has agreed to pay a pro rata share of the debt service on the Contract Revenue Bonds (herein defined), including the Bonds and the Outstanding Bonds (herein defined), which share is based upon the appraised valuation subject to taxation plus amounts equal to any optional exemption or special appraisal value granted or adopted by a Participant, and any optional exemption or special value claimed by a landowner due to use for agricultural, open space, timberland, or other similar uses (the “Gross Certified Assessed Valuation”) of each Participant as a percentage of the Gross Certified Assessed Valuation of all Participants, calculated annually.

Each Participant is contractually obligated to make the Contract Payments from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by such Participant for such purpose on taxable property within its boundaries (the “Contract Tax”), from revenues derived from the operations of such Participant’s water distribution and wastewater collection systems, or from any other lawful sources of such Participant’s income. No Participant is liable for the payments owed by any other Participant; however, failure of any Participant to make its Contract Payment, as required by the Regional District Contract, could result in an increase in the Contract Payment amount paid by each of the Participants during the time that such Participant’s payment is delinquent, as the Participants would have to replenish its respective coverage in the Regional District debt service fund.

The Bonds are special obligations of the Regional District and are not obligations of the State of Texas; Harris County, Texas; Waller County, Texas; the City of Houston, Texas; any of the Participants (except the Regional District in its capacity as the Regional District); or any entity other than the Regional District. See “THE BONDS – Source of Payment,” “THE BONDS – Unconditional Obligation to Pay,” and “REGIONAL DISTRICT CONTRACT.”

Authority for Issuance..... The Bonds are issued by the Regional District pursuant to the Regional District Contract approved by the voters of each Participant; the terms and conditions of the bond resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the Regional District (the “Board”) on the date of sale of the Bonds; an order of the Texas Commission on Environmental Quality (the “TCEQ”); an election held within the Regional District and passed by a majority of the participating voters; House Bill No. 4520, an act of the 86th Legislature, Regular Session, effective June 10, 2019, and codified as Chapter 8047 of the Special District Local Laws Code (the “Act”); Article XVI, Section 59 of the Texas Constitution; and Chapters 49

and 54 of the Texas Water Code, as amended, and the general laws of Texas relating to the issuance of bonds by political subdivisions in Texas. See “THE BONDS – Authority for Issuance,” “THE BONDS – Issuance of Additional Debt,” “REGIONAL DISTRICT CONTRACT,” and “RISK FACTORS – Future Debt.”

- Payment Record.....The Regional District has never defaulted on the timely payment of debt service due on its bonded indebtedness.
- Outstanding BondsThe Regional District has previously issued two series of contract revenue bonds for financing Regional District Facilities as follows: \$12,480,000 Contract Revenue Bonds, Series 2022, and \$10,400,000 Contract Revenue Road Bonds, Series 2022. As of June 1, 2023, all \$22,880,000 principal amount of such prior issuances of bonds by the Regional District remained outstanding (the “Outstanding Bonds”).
- Short-Term Debt.....In connection with the sale of the Bonds, the Regional District has issued its \$6,095,000 Bond Anticipation Note, Series 2022A, dated December 22, 2022 (the “BAN”), and distributed proceeds from the sale of the BAN as described under “THE BONDS – Use and Distribution of Bond Proceeds.” The BAN accrues interest at a rate of 4.80% per year (computed on the basis of a 365-day year) and matures on December 16, 2023, unless called for redemption prior to maturity.
- Use of Proceeds of Bonds.....Proceeds of the sale of the Bonds will be used by the Regional District to redeem the BAN, the proceeds of which were used to reimburse Astro Sunterra (defined herein) for a portion of the construction costs related to (i) detention and mass grading of Sunterra Phase 1, (ii) drainage pipes and outfalls serving Sunterra, (iii) water, sewer, and drainage related to Bartlett Road, Segments 1 and 2, and (iv) land costs. Proceeds of the Bonds will also be used to reimburse Astro Sunterra for construction costs that were not reimbursed by the BAN; pay Quadvest (herein defined) connection fees for water and wastewater capacity; pay for water, sewer, and drainage improvements related to Stockdick Road, Segment 1; pay twelve (12) months of capitalized interest on the Bonds; pay BAN interest and developer interest; and pay costs of issuance associated with the BAN and the Bonds. See “THE BONDS – Use and Distribution of Bond Proceeds” for further information.
- Not Qualified Tax-Exempt ObligationsThe Bonds are not “qualified tax-exempt obligations” for financial institutions.
- Municipal Bond Insurance and Ratings.....See “MUNICIPAL BOND INSURANCE” and “MUNICIPAL BOND RATING” above.
- Bond CounselAllen Boone Humphries Robinson LLP, Houston, Texas.
- Disclosure CounselMcCall, Parkhurst & Horton L.L.P., Houston, Texas.
- Financial Advisor.....Robert W. Baird & Co. Incorporated, Houston, Texas.
- Regional District EngineerQuiddity Engineering, LLC, Houston, Texas.
- Paying Agent/Registrar.....BOKF, NA, Dallas, Texas.

THE REGIONAL DISTRICT

Description..... The Regional District is a political subdivision of the State of Texas that was created by House Bill No. 4520, an act of the 86th Legislature, Regular Session, effective June 10, 2019, and codified as Chapter 8047 of the Special District Local Laws Code (the "Act"). The rights, powers, privileges, authority, and functions of the Regional District are established by the general laws of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended; Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution; and the Act. See "THE REGIONAL DISTRICT."

Sunterra and the Service Area..... Sunterra is a master-planned community that consists of approximately 2,303.88 total acres comprised of five municipal utility districts: MUD 4, Harris-Waller Counties Municipal Utility District No. 5 ("MUD 5"), Waller County Municipal Utility District No. 37 ("MUD 37"), Harris County Municipal Utility District No. 569 ("MUD 569"), and Waller County Municipal Utility District No. 35 ("MUD 35").

MUD 4, in its capacity as the Regional District for the Sunterra development, is the provider of regional water, wastewater, drainage facilities and regional arterial, collector, and thoroughfare roads to the 2,303.88-acre service area ("Service Area") made up of lands within MUD 4 (140.29 acres), MUD 5 (489.32 acres), MUD 37 (410.07 acres), MUD 569 (568.04 acres), and MUD 35 (696.16 acres).

A portion of the Service Area is located in Harris County, Texas, and a portion of the Service Area is located in Waller County, Texas, approximately 30 miles from the central business district of the City of Houston, Texas. The Service Area is located entirely within the extraterritorial jurisdiction of the City of Houston, Texas. A portion of the Service Area lies within the Katy Independent School District, and a portion of the Service Area lies within Royal Independent School District.

The Participants..... MUD 4, MUD 5, MUD 37, MUD 569, and MUD 35 (collectively, the "Participants") have entered into the Regional District Contract with the Regional District. By execution of the Regional District Contract, each Participant is obligated to pay its pro rata share of debt service on bonds issued by the Regional District to finance Regional District Facilities (herein defined). See "THE BONDS – Issuance of Additional Debt" and "REGIONAL DISTRICT CONTRACT."

Each Participant operates under the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code, as amended, applicable to municipal utility districts created under Section 59, Article XVI of the Texas Constitution and is authorized to construct and finance road project as provided under Section 52, Article III of the Texas Constitution. To serve the property within their boundaries, the Participants have the powers to construct, acquire, operate, maintain, and finance water, wastewater, drainage, road, and park and recreational facilities. See "THE PARTICIPANTS."

Development within the Service Area Currently, development activity is either completed or ongoing within the boundaries of all Participants. Within the Service Area,

approximately 1,127.05 acres (4,182 lots) have been developed as the single-family residential subdivisions of Sunterra, Sections 1–44, 46, 49, and 50. As of June 1, 2023, approximately 990 homes were complete (approximately 818 occupied and approximately 172 unoccupied), approximately 578 homes were under construction, and approximately 2,614 lots were developed and vacant.

Developers.....Astro Sunterra, L.P., a Delaware limited partnership (“Astro Sunterra”), is the primary developer of land in the Service Area. Astro Sunterra was established by Mr. Al Brende and Starwood Land Astro Venture LP as a special purpose entity for the purpose of developing land and marketing developed land within the Service Area. Starwood Land Astro Venture LP has entered into a management agreement with Land Tejas Companies, Ltd. for the purpose of managing the day-to-day development activities within the Service Area.

In addition, Pulte Homes of Texas, L.P., a Texas limited partnership (“Pulte”), is the developer of Sunterra, Sections 10, 12, and 13, HMH Sunterra Land, LLC, a Texas limited liability company (“HMH Sunterra”), is the developer of Sunterra, Sections 18, 19, 20, and 22, and ONML Villas at Sunterra, LLC, a Texas limited liability company (“ONML Villas”), is the developer of Sunterra, Section 21. KB Home Lone Star Inc, a Texas corporation (“KB Home Lone Star”), is the developer of Sunterra, Sections 28 and 48. Gehan Homes, Ltd., a Texas limited partnership (“Gehan Homes”), is the developer of Sunterra, Sections 46 and 47. Beazer Homes Texas, L.P., a Delaware limited partnership (“Beazer Homes”), is the developer of Sunterra, Sections 42–45, 51, and 52 within the Service Area. Astro Sunterra, Pulte, HMH Sunterra, ONML Villas, KB Home Lone Star, Gehan Homes, and Beazer Homes are collectively referred to herein as the “Developers.” See “THE DEVELOPERS.”

Homebuilders within the Service Area.....The homebuilders active within the Service Area are Adams Homes, Anderson Homes, Anglia Homes, Ashton Woods Homes, Beazer Homes, Brightland Homes, CastleRock Communities, Centex Homes, Chesmar Homes, Colina Homes, Davidson Homes, D.R. Horton, Empire, Hamilton Thomas Homes, Highland Homes, HistoryMaker Homes, KB Home, Lennar Homes, LGI Homes, Long Lake, Perry Homes, Pulte Homes, Shea Homes, TriCoast Homes, and Westin Homes. Prices of new homes being constructed within the Service Area range from approximately \$260,000 to \$800,000 and range in size from approximately 1,400 to 4,000 square feet. See “THE REGIONAL DISTRICT – Homebuilders Active Within the Service Area.”

RISK FACTORS

THE BONDS ARE SUBJECT TO CERTAIN RISK FACTORS. PROSPECTIVE PURCHASERS SHOULD REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED “RISK FACTORS,” BEFORE MAKING AN INVESTMENT DECISION.

SELECTED FINANCIAL INFORMATION
(UNAUDITED)

Contract Revenue Bonds of the Regional District

2022 Gross Certified Assessed Valuation of the Participants	\$ 127,476,644	(a)
2023 Gross Preliminary Assessed Valuation of the Participants.....	\$ 510,007,253	(b)
Regional Direct Debt:		
The Outstanding Bonds.....	\$ 22,880,000	
The Bonds	<u>\$ 14,250,000</u>	
Total Direct Debt.....	\$ 37,130,000	
Estimated Overlapping Debt	<u>\$ 30,719,134</u>	(c)
Total Direct and Estimated Overlapping Debt	\$ 67,849,134	
Direct Debt Ratios:		
As a percentage of the 2022 Gross Certified Assessed Valuation of the Participants	29.13	%
As a Percentage of the 2023 Gross Preliminary Assessed Valuation of the Participants	7.28	%
Direct and Estimated Overlapping Debt Ratios:		
As a Percentage of the 2022 Gross Certified Assessed Valuation of the Participants	53.22	%
As a Percentage of the 2023 Gross Preliminary Assessed Valuation of the Participants	13.30	%

Regional District Funds

Contract Revenue System Debt Service Fund Balance (as of June 14, 2023).....	\$ 741,074	(d) (f)
Contract Revenue Road Debt Service Fund Balance (as of June 14, 2023)	\$ 631,219	(e) (f)

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- (a) Represents the gross assessed valuation as of January 1, 2022, of all taxable property of all Participants in the Service Area, as provided by the Waller County Appraisal District and the Harris Central Appraisal District, as applicable. See "TAXING PROCEDURES" and "TAX DATA."
- (b) Represents the preliminary determination of gross assessed valuation as of January 1, 2023, of all taxable property of all Participants in the Service Area, as provided by the Waller County Appraisal District and the Harris Central Appraisal District, as applicable. This preliminary value is subject to protest by the owners of taxable property in the District. No taxes will be levied on this preliminary value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "REGIONAL DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement."
- (d) In addition to this amount, twelve (12) months of capitalized interest will be deposited into the Contract Revenue System Debt Service Fund upon closing and delivery of the Bonds. Neither Texas law nor the Bond Resolution requires that the Regional District maintain any particular sum in the Contract Revenue System Debt Service Fund. Money deposited into the Contract Revenue System Debt Service Fund can only be used to pay debt service on the Contract Revenue System Bonds, such as the Bonds. Funds deposited into the Contract Revenue System Debt Service Fund are not pledged to the Contract Revenue Road Bonds.
- (e) Neither Texas law nor the Bond Resolution requires that the Regional District maintain any particular sum in the Contract Revenue Road Debt Service Fund. Money deposited into the Contract Revenue Road Debt Service Fund can only be used to pay debt service on the Contract Revenue Road Bonds. Funds deposited into the Contract Revenue Road Debt Service Fund are not pledged to the Contract Revenue System Bonds, such as the Bonds.
- (f) Each Participant is obligated to pay a pro rata share of debt service on the Contract Revenue Bonds by the dates specified in the Regional District Contract. See "THE BONDS – Contract Payments by the Participants," "THE BONDS – Unconditional Obligation to Pay," and "REGIONAL DISTRICT CONTRACT."

Debt Service Requirements on the Bonds

Average Annual Debt Service Requirement (2023–2049)	\$ 2,483,112 (a)
Maximum Annual Debt Service Requirement (2025)	\$ 2,649,081 (a)
Contract Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay	
Average Annual Debt Service Requirement (2023–2049) at 95% Tax Collections:	
Based on the 2022 Gross Certified Assessed Valuation of the Participants	\$2.06
Based on the 2023 Gross Preliminary Assessed Valuation of the Participants	\$0.52
Contract Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay	
Maximum Annual Debt Service Requirement (2025) at 95% Tax Collections:	
Based on the 2022 Gross Certified Assessed Valuation of the Participants	\$2.19
Based on the 2023 Gross Preliminary Assessed Valuation of the Participants	\$0.55

Assessed Valuations of the Participants

Participant	2022 Gross Certified Assessed Valuation (b)	Percent of Total	2023 Gross Preliminary Assessed Valuation (c)	Percent of Total
MUD 4	\$ 5,700,706	4.47%	\$ 5,370,027	1.05%
MUD 5	64,323,851	50.46%	358,070,701	70.21%
MUD 37	18,607,952	14.60%	103,987,495	20.39%
MUD 569	4,546,687	3.57%	10,719,503	2.10%
MUD 35	34,297,448	26.90%	31,859,527	6.25%
Total	\$ 127,476,644	100.00%	\$ 510,007,253	100.00%

- (a) Represents a requirement of debt service on the Outstanding Bonds and the Bonds combined. See "REGIONAL DISTRICT DEBT."
- (b) Represents the gross assessed valuation as of January 1, 2022, of all taxable property in the Participant, as provided by the Waller County Appraisal District and the Harris Central Appraisal District, as applicable. See "TAXING PROCEDURES" and "TAX DATA."
- (c) Represents the preliminary determination of gross assessed valuation as of January 1, 2023, of all taxable property of all Participants in the Service Area, as provided by the Waller County Appraisal District and the Harris Central Appraisal District, as applicable. This preliminary value is subject to protest by the owners of taxable property in the Service Area. No taxes will be levied on this preliminary value. See "TAX DATA" and "TAXING PROCEDURES."

Status of Development as of June 1, 2023

Participant	Total Acreage	Completed Lots	Occupied Completed Homes	Unoccupied Completed Homes	Homes Under Construction	Vacant Developed Lots	Lots Under Development
MUD 4	140.29	0	0	0	0	0	0
MUD 5	489.32	1,643	730	116	208	589	0
MUD 37	410.07	1,199	88	44	206	861	0
MUD 569	568.04	943	0	12	60	871	0
MUD 35	696.16	397	0	0	104	293	0
Total	2,303.88	4,182	818	172	578	2,614	0

Selected Tax Data

Participant	2022 Debt Service Tax Rate	2022 Maintenance Tax Rate	2022 Contract Tax Rate (a)	2022 Total Tax Rate
MUD 4	\$ 0.000	\$ 1.500	\$ 0.000	\$ 1.500
MUD 5	0.220	0.870	0.410	1.500
MUD 37	0.000	1.500	0.000	1.500
MUD 569	0.000	1.500	0.000	1.500
MUD 35	0.000	1.500	0.000	1.500

(a) For the 2022 tax year, only MUD 5 has levied a Contract Tax for its Contract Payment. The Regional District Contract provides that a Participant may make Contract Payments from the proceeds of the Contract Tax or from any other lawful sources, which include proceeds from the Participant’s levy of a maintenance tax rate and operating funds advanced by the Developers. See “RISK FACTORS – Dependence on Major Taxpayers and the Developers.”

Debt Service Requirement Schedule

The following schedule sets forth the annual debt service requirements of the Outstanding Bonds, the principal and interest requirements of the Bonds, and the combined total annual debt service requirements of the Outstanding Bonds and the Bonds. Totals may not sum due to rounding.

Calendar Year	Outstanding Bonds	Plus: The Bonds		Total Debt Service
		Principal	Interest	
2023	\$607,744	-	-	\$607,744
2024	1,680,488	-	\$791,468	2,471,955
2025	1,674,913	\$310,000	664,169	2,649,081
2026	1,678,238	325,000	644,019	2,647,256
2027	1,674,913	340,000	622,894	2,637,806
2028	1,675,213	355,000	600,794	2,631,006
2029	1,668,863	370,000	577,719	2,616,581
2030	1,671,138	390,000	553,669	2,614,806
2031	1,669,638	410,000	528,319	2,607,956
2032	1,671,638	430,000	501,669	2,603,306
2033	1,676,888	450,000	473,719	2,600,606
2034	1,675,138	470,000	444,469	2,589,606
2035	1,681,638	490,000	425,669	2,597,306
2036	1,680,888	515,000	406,069	2,601,956
2037	1,683,138	540,000	385,469	2,608,606
2038	1,683,138	565,000	363,869	2,612,006
2039	1,690,888	590,000	341,269	2,622,156
2040	1,693,388	620,000	317,669	2,631,056
2041	1,683,000	650,000	292,869	2,625,869
2042	1,690,250	680,000	266,869	2,637,119
2043	1,686,175	710,000	239,669	2,635,844
2044	1,683,800	745,000	211,269	2,640,069
2045	1,677,850	780,000	180,538	2,638,388
2046	1,678,325	820,000	148,363	2,646,688
2047	1,674,675	855,000	114,538	2,644,213
2048	1,666,900	900,000	78,200	2,645,100
2049	-	940,000	39,950	979,950
Total	\$42,578,856	\$14,250,000	\$10,215,180	\$67,044,037

Average Annual Debt Service Requirement (2023–2049) \$2,483,112
 Maximum Annual Debt Service Requirement (2025)..... \$2,649,081

\$14,250,000

**HARRIS-WALLER COUNTIES MUNICIPAL UTILITY DISTRICT NO. 4
CONTRACT REVENUE BONDS, SERIES 2023**

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Harris-Waller Counties Municipal Utility District No. 4 (the "Regional District" or, in its capacity as a Participant (herein defined), "MUD 4") of the \$14,250,000 Contract Revenue Bonds, Series 2023 (the "Bonds").

The Bonds are issued by the Regional District pursuant to the Regional District Contract (herein defined) approved by the voters of each Participant (herein defined), the terms and conditions of the bond resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the Regional District (the "Board") on the date of sale of the Bonds, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an order of the Texas Commission on Environmental Quality (the "TCEQ"), House Bill No. 4520, an act of the 86th Legislature, Regular Session, effective June 10, 2019, and codified as Chapter 8047 of the Special District Local Laws Code (the "Act"), an election held within the Regional District and passed by a majority of the participating voters, and the general laws of the State of Texas ("Texas") relating to the issuance of bonds by political subdivisions in Texas.

This Official Statement includes descriptions, among others, of the Bonds, the Bond Resolution, and certain other information about the "Participants" (MUD 4, Harris-Waller Counties Municipal Utility District No. 5 ("MUD 5"), Waller County Municipal Utility District No. 37 ("MUD 37"), Harris County Municipal Utility District No. 569 ("MUD 569"), and Waller County Municipal Utility District No. 35 ("MUD 35")), certain other information about the Regional District, in both its capacity as the Regional District and as a Participant, the approximate 2,303.88 acre service area (the "Service Area") served by the Regional District Facilities (herein defined), and the Contract for the Financing, Operation and Maintenance of Regional Facilities entered into by the Participants and the Regional District (the "Regional District Contract").

There follows herein descriptions of the Bonds, the Developers (herein defined), the Bond Resolution, and certain information about the Regional District and its finances. 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 (herein defined) at 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, upon payment of the costs of duplication thereof. Certain capitalized terms used herein have the same meanings assigned to such terms in the Bond Resolution, except as otherwise indicated herein.

RISK FACTORS

General

The Regional District is issuing the Bonds for the purpose of constructing or acquiring regional water, wastewater, and drainage facilities to serve the Service Area (the "Regional District System Facilities"). In addition, the Regional District has and will continue to issue bonds for the purpose of constructing or acquiring a regional road system to serve the Service Area (the "Regional District Road Facilities"). The Regional District System Facilities and the Regional District Road Facilities are collectively referred to herein as the "Regional District Facilities." The contract revenue bonds issued for the purpose of constructing or acquiring the Regional District System Facilities are referred to herein as the "Contract Revenue System Bonds," and the contract revenue bonds issued for the purpose of constructing or acquiring the Regional District Road Facilities referred to herein as the "Contract Revenue Road Bonds." The Contract Revenue System Bonds and the Contract Revenue Road Bonds are collectively referred to herein as the "Contract Revenue Bonds."

The Bonds are special obligations of the Regional District payable solely from the Contract Payments and are not obligations of the State of Texas; Harris County, Texas; Waller County, Texas; the City of Houston, Texas; any of the Participants (except the Regional District in its capacity as the Regional District); or any entity other than the Regional District. The Contract Revenue Bonds, including the Bonds, are payable solely from and to the extent of certain contract payments received by the Regional District from the Participants pursuant to the Regional District Contract, with each Participant's annual contract payment being equal to its pro rata share of

annual debt service on the Contract Revenue Bonds, including the Bonds, plus all charges and expenses of paying agents and registrars, and all amounts required to establish and maintain funds, established under the Bond Resolution based upon the appraised valuation subject to taxation plus amounts equal to any optional exemption or special appraisal value granted or adopted by a Participant, and any optional exemption or special value claimed by a landowner due to use for agricultural, open space, timberland, or other similar uses (the "Gross Certified Assessed Valuation") of each such Participant as a percentage of the total Gross Certified Assessed Valuation of all Participants (the "Contract Payments").

Each Participant is contractually obligated to make the Contract Payments from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by such Participant for such purpose on all taxable property within its boundaries (the "Contract Tax"), from revenues derived from the operations of such Participant's water distribution and wastewater collection systems, or from any other lawful sources of such Participant's income. The obligations of the Participants to make Contract Payments are several, not joint, obligations prorated among the Participants based upon the proportion of the Gross Certified Assessed Valuation of property within their respective boundaries to the total Gross Certified Assessed Valuation of property within all Participants, as described herein. No Participant is obligated to pay the Contract Payments allocated to any other Participant; however, lack of payment by any Participant could result in an increase in the Contract Payment amount paid by each of the other Participants during the time that such Participant's payment is delinquent as the Regional District may include a reserve amount in the Contract Payment due from each Participant. The security for payment of the principal of and interest on the Bonds by the Regional District, therefore, depends on the ability of each Participant to collect annual ad valorem taxes (without legal limit as to rate or amount) levied on taxable property within its boundaries sufficient to make its Contract Payments. The collection by each Participant of delinquent taxes owed to it may be a costly and lengthy process. See "RISK FACTORS – Registered Owners' Remedies and Bankruptcy" and "THE BONDS – Source of Payment."

Economic Factors and Interest Rates

The rate of development of the Service Area is directly related to the vitality of the residential and commercial industry in the Houston area. New residential construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of residential construction activity would restrict the growth of property values within the Service Area. The Regional District and Participants cannot predict the pace or magnitude of any future development within the Service Area. See "THE REGIONAL DISTRICT – Status of Development Within the Service Area."

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for developmental costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the Service Area. Because of the numerous and changing factors affecting the availability of funds, the Regional District is unable to assess the future availability of such funds for continued construction within the Service Area. In addition, since the Service Area is located approximately 30 miles from the central downtown business district of Houston, the success of development within the Service Area and growth of Service Area taxable property values are, to a great extent, a function of the Houston and regional economies. A downturn in the economic conditions of Houston and the nation could adversely affect development and home-building plans within the Service Area and restrain the growth of the Service Area's property tax base.

Competition

The demand for and construction of single-family homes within the Service Area could be affected by competition from other residential developments including other residential developments located in the western portion of the Houston area. In addition to competition for new home sales from other developments, there are numerous previously owned homes near the Service Area and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the Service Area.

The competitive position of the Developers in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the Service Area is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable

values within the Service Area. The Regional District can give no assurance that building and marketing programs within the Service Area by the Developers will be implemented or, if implemented, will be successful.

Dependence on Major Taxpayers and the Developers

The top ten principal taxpayers within the Service Area represent \$84,815,386, or 66.53%, of the 2022 Gross Certified Assessed Valuation of the Participants, which is \$127,476,644, and represents ownership in the Participants' boundaries as of January 1, 2022. Astro Sunterra (herein defined) represents \$34,432,515, or 27.01%, of such value. See "TAX DATA – Principal Taxpayers." If the Developers (herein defined) or another principal taxpayer were to default in the payment of taxes in an amount which exceeds the amount in the debt service fund created to pay debt service on bonds issued for the Regional District System Facilities (the "Contract Revenue System Debt Service Fund") or the debt service fund created to pay debt services on bonds issued for the Regional District Road Facilities (the "Contract Revenue Road Debt Service Fund"), the ability of the Regional District to make timely payment of debt service on the Bonds would be dependent on the ability of Participants to enforce and liquidate their tax liens, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in a Participant being forced to set an excessive tax rate, hindering growth and leading to further defaults in the payment of taxes. The Regional District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its Contract Revenue System Debt Service Fund or Contract Revenue Road Debt Service Fund. See "RISK FACTORS – Tax Collection Limitations," "TAXING PROCEDURES – Levy and Collection of Taxes," and "APPENDIX A – Certain Financial Information Regarding the Participants."

The Developers have informed the Board that their current plans are to develop the remaining undeveloped land and to continue marketing the remaining developed lots in the Participants to homebuilders. However, neither the Developers nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development should not be interpreted as such a commitment. The Regional District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developers or any other landowner within the Service Area to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The Regional District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developers or any other landowner. See "THE DEVELOPERS."

Undeveloped Acreage and Vacant Lots

There are approximately 538 undeveloped but developable acres within the Service Area that have not been provided with water, wastewater, drainage, road, and other facilities necessary for the construction of taxable improvements. In addition, as of June 1, 2023, there were approximately 2,614 vacant developed lots. The Regional District makes no representation as to when or if development of the undeveloped but developable acreage will occur or that the lot sales and building program will be successful. See "THE REGIONAL DISTRICT – Status of Development Within the Service Area."

Maximum Impact on Contract Tax Rate

Assuming no further development, the value of the land and improvements currently within the Participants will be the major determinant of the ability and willingness of property owners to pay their taxes. The 2022 Gross Certified Assessed Valuation of the Participants is \$127,476,644, and the 2023 Gross Preliminary Assessed Valuation of the Participants is \$510,007,253. See "TAX DATA." After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds (herein defined) and the Bonds will be \$2,649,081 (2025) and the average annual debt service requirement on the Outstanding Bonds and the Bonds will be \$2,483,112 (2023–2049). Assuming no increase or decrease from the 2022 Gross Certified Assessed Valuation of the Participants, a Contract Tax rate of \$2.19 per \$100 of assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement on the Outstanding Bonds and the Bonds, and a Contract Tax rate of \$2.06 per \$100 of assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement on the Outstanding Bonds and the Bonds. Assuming no increase or decrease from the 2023 Gross Preliminary Assessed Valuation of the Participants, a Contract Tax rate of \$0.55 per \$100 of assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement on the Outstanding Bonds and the Bonds and a Contract Tax

rate of \$0.52 per \$100 of assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement on the Outstanding Bonds and the Bonds. See “SELECTED FINANCIAL INFORMATION” and “TAX DATA – Tax Rate Calculations.”

Overlapping Debt and Tax Rates

The Regional District and each Participant may each independently issue additional debt which may change the projected and actual tax rates in the future.

Landowners are or will be responsible for the payment of ad valorem taxes levied by each Participant for payment of Contract Payments. In addition, owners of property located within the Participants are responsible for the payment of ad valorem taxes levied by each Participant for the payment of debt service on unlimited tax bonds issued by each Participant and ad valorem taxes levied by each Participant for the purpose of paying the Participant’s operation and maintenance costs. See “APPENDIX A – Certain Financial Information Regarding the Participants” for information related to each Participant’s indebtedness and taxation requirements.

In addition, property located within the Service Area is subject to taxation by various other governmental entities. See “RISK FACTORS – Debt Burden on Property Within the Service Area” and “TAX DATA – Estimated Overlapping Taxes.”

Debt Burden on Property Within the Service Area

The total tax rate paid by property owners within the Service Area is a major factor in the demand for single-family homes within the Service Area. The Regional District Contract requires that the Participants make Contract Payments from the Contract Tax. In addition, other contract tax payments are required of the Participants by the Regional District Contract. See “REGIONAL DISTRICT CONTRACT.” Furthermore, each Participant will be required to levy taxes on property within its boundaries (without legal limit as to rate or amount) to pay annual principal and interest on any unlimited tax bonds issued in the future by the Participant to fund internal water, wastewater, drainage, and road facilities within the Participant’s boundaries. Each Participant may also levy taxes on property within its boundaries to pay operations and maintenance expenses. For the 2022 tax year, each Participant has levied a total tax rate of \$1.50.

The tax rate that may be required to service debt on any bonds issued by the Regional District or a Participant is subject to numerous uncertainties such as the growth of taxable values within such district, the amount of the bonds issued, regulatory approvals, construction costs and market interest rates. There can be no assurances that composite tax rates imposed by overlapping jurisdictions on property situated in Sunterra will be competitive with the tax rates of competing projects. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values in the Service Area and the investment quality or security of the Bonds could be adversely affected.

In addition, the Participants are within the taxing jurisdiction of other taxing entities, including Waller County, Harris County, Katy Independent School District, and Royal Katy Independent School District, as applicable. Each of these entities currently levies various taxes on property within the boundaries, as applicable, of the Participants in addition to the other taxes listed above.

Operational Expenses

Each Participant is obligated to pay monthly charges to the Regional District for its share of the Regional District’s operation and maintenance expenses in connection with the Regional District’s provision of service from the Regional District Facilities. The monthly charges to be paid by each Participant to the Regional District will be used to pay each Participant’s share of operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. Each Participant’s share of operation and maintenance expenses and reserve requirements is based upon a “unit cost” of operation and maintenance expense and reserve requirements, calculated by the Regional District and expressed in terms of “cost per equivalent single-family residential connection.” Each Participant’s monthly payment to the Regional District for operation and maintenance expenses will be calculated by multiplying the number of equivalent single-family residential connections (“ESFCs”) reserved to each Participant on the first day of the previous month by the unit cost per ESFC. See “THE REGIONAL DISTRICT FACILITIES.”

No Reserve Fund

The Bonds will be issued pursuant to the Bond Resolution wherein the Contract Payments will be pledged to payment of debt service on the Bonds. The Bond Resolution confirms the creation of the Contract Revenue System Debt Service Contract Revenue Fund but does not create designated reserve funds. Each Participant's pro rata share of the Contract Payments is calculated by the Regional District. The Regional District's annual calculation of the debt service requirement to be paid by the Participants shall include no more than the sum of next year's annual debt service requirements and, at the option of the Regional District, up to 50% of the following year's annual debt service requirements to establish a replenishment amount in the debt service funds, which when paid by the Participants, will be deposited into the respective debt service funds. Delay or failure of any Participant to pay its pro rata share of the debt service requirements may adversely affect payment of the Bonds. There is no trust estate or trust indenture securing the payment of the Bonds and no trustee to enforce a mandamus action on behalf of the Registered Owners (herein defined). Any action in mandamus as a result of a payment or other default under the Bond Resolution would have to be brought by the Registered Owners themselves against the Regional District, and such an action would not necessarily operate to enforce rights against other Participants. See "RISK FACTORS – Registered Owners' Remedies and Bankruptcy."

The Regional District further covenants that if at any time the fund balance in either the Contract Revenue System Debt Service Fund or the Contract Revenue Road Debt Service Fund falls below 10% of the following year's debt service requirement for the respective bonds, it will levy the maximum amount allowed under the Bond Resolution (100% of the next year's debt service requirement plus 50% of the following year's debt service requirement) until such time that the debt service fund balance in the respective fund exceeds 50% of the next year's debt service requirement.

Tax Collection Limitations

The Regional District's ability to make debt service payments may be adversely affected by each Participant's inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by a Participant constitutes a lien in favor of such Participant on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. A Participant's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions affecting the marketability of taxable property within the Participant's boundaries and limiting the proceeds from a foreclosure sale of such property, or (d) the taxpayer's right to redeem the property within six (6) months for commercial property and two (2) years for residential property and all other property after the purchaser's deed issued at the foreclosure is filed in the county records. While the Participant has a lien on taxable property within the Participant's boundaries for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the Participant from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the Participant's boundaries pursuant to Federal Bankruptcy Code could stay any attempt by such Participant to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two (2) other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six (6) 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."

Registered Owners' Remedies and Bankruptcy

There is no trust estate or trust indenture securing the payment of the Bonds and no trustee to enforce a mandamus action on behalf of Registered Owners. There is no reserve fund securing the payment of the Bonds. See "RISK FACTORS – No Reserve Fund."

In the event of default in the payment of principal of or interest on the Bonds, the registered owners of the Bonds (the "Registered Owners" and each a "Registered Owner") have a right to seek a writ of mandamus requiring the Regional District to levy adequate taxes each year to make such payments. Except for the

mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce such interests of the Registered Owners. There is no provision for 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. Although the Registered Owners could obtain a judgment against the Regional District, such a judgment could not be enforced by a direct levy and execution against the Regional District's property. Further, the Registered Owners themselves cannot foreclose on property within the Service Area or sell property within the Service Area in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Registered Owners further 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 Regional District. In this regard, should the Regional District file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the Regional District to seek judicial foreclosure of its tax lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge" See "THE BONDS – Registered Owners' Remedies."

Future Debt

Pursuant to the Regional District Contract and in connection with the development of the Service Area, the Regional District may issue Contract Revenue Bonds in an amount necessary to provide the Regional District Facilities. The Regional District Contract also authorizes the Regional District to refund any outstanding Contract Revenue Bonds. Any future Contract Revenue Bonds will be on a parity with the Bonds. The Regional District is expected to issue additional Contract Revenue Bonds. The Regional District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of Contract Revenue Bonds which it may issue. The issuance of additional Contract Revenue System Bonds is subject to approval by the TCEQ pursuant to its rules and regarding issuance and feasibility of bonds. See "RISK FACTORS – Maximum Impact on Contract Tax Rate" and "THE BONDS – Issuance of Additional Debt."

The Regional District Contract obligates each Participant to pay a pro rata share of the debt service on the Contract Revenue Bonds based upon the Gross Certified Assessed Valuation of each Participant as a percentage of the Gross Certified Assessed Valuation of all Participants, calculated annually. Each Participant is obligated to make such Contract Payments from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by such Participant for such purpose on all taxable property within its boundaries, or also known as the "Contract Tax," from revenues derived from the operations of such Participant's water distribution and wastewater collection systems, or from any other lawful source of such Participant's income.

Pursuant to the Regional District Contract and after the issuance of the Bonds, the Regional District will have \$583,497,000 principal amount of Contract Revenue System Bonds remaining authorized but unissued, \$189,261,000 principal amount of Contract Revenue Road Bonds remaining authorized but unissued, and such additional bonds as may hereafter be approved by both the Board and voters of the Participants. See "THE BONDS – Issuance of Additional Debt."

The Bonds and all additional Contract Revenue Bonds issued by the Regional District, will be payable from the Contract Tax. In the fourth quarter of 2023, the Regional District anticipates that it will issue its second series of Contract Revenue Road Bonds. The principal amount of such bond issue has yet to be determined. Additionally, in the fourth quarter of 2023, the Regional District anticipates that it will submit an application to the TCEQ for approval to issue its third series of Contract Revenue System Bonds. The principal amount of such bond issue is yet to be determined, however the Regional District anticipates that it will issue such bonds in 2024, following receipt of approval of the bond application from the TCEQ.

Following the Regional District's issuance of the Bonds, the Regional District will owe Astro Sunterra approximately \$74,685,000 for reimbursable expenditures made by Astro Sunterra to construct the Regional District Facilities. See "THE BONDS – Issuance of Additional Debt."

Each Participant may issue unlimited tax bonds for water, wastewater, drainage, road, and park and recreational services, with any required approval of the TCEQ, necessary to provide and maintain improvements and facilities to serve land within their respective boundaries consistent with the purposes for which the Regional District or such other Participant was created. TCEQ approval is not currently required for

the Regional District or any Participant to issue bonds for the purpose of constructing or acquiring road facilities.

Each Participant, including MUD 4, has voted bonds for purposes of providing internal water, wastewater, drainage, road, and park and recreational facilities within its respective boundaries. At an election held on May 1, 2021, voters of MUD 4 authorized MUD 4's issuance of the following: \$27,610,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing facilities necessary to provide water, sanitary sewer, and storm water drainage systems serving MUD 4; \$8,284,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by MUD 4 for acquiring or constructing facilities necessary to provide water, sanitary sewer, and storm water drainage systems serving MUD 4; \$28,545,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing roads and improvements in aid thereof to serve MUD 4; \$8,564,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by MUD 4 for acquiring or constructing roads and improvements in aid thereof to serve MUD 4; \$23,285,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities in MUD 4; and \$6,986,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by MUD 4 for acquiring or constructing parks and recreational facilities in MUD 4. To date, MUD 4 has issued no bonds for internal facilities from such voted authorizations from the May 1, 2021 election.

See "APPENDIX A – Certain Financial Information Regarding the Participants" for a description of the voter authorized bonds, principal amount of bonds issued (if any), and principal amount of bonds outstanding for each Participant.

Environmental Regulations

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

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

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

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

The HGB Area is currently designated as a "severe" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2027. 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 “moderate” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2024. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

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

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

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

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000) (“CGP”), with an effective date of March 5, 2023, 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. The CGP has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

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

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

On May 25, 2023, the Supreme Court of the United States issued its decision in *Sackett v. EPA*, which clarified the definition of “waters of the United States” and significantly restricted the reach of federal jurisdiction under the CWA. Under the *Sackett* decision, “waters of the United States” includes only geographical features that are described in ordinary parlance as “streams, oceans, rivers, and lakes” and to adjacent wetlands that are indistinguishable from such bodies of water due to a continuous surface connection.

While the *Sackett* decision removed a great deal of uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements, in the future.

Potential Effects of Oil Price Fluctuations on the Houston Area

The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the Service Area. The Regional District cannot predict the impact that negative conditions in the oil industry could have on property values in the Service Area.

Specific Flood Type Risks

The Service Area may be subject to the following flood risks:

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

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

National Weather Service Atlas Rainfall Study

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the Service Area may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the Service Area. 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.

Potential Impact of Natural Disaster

The Service Area is located approximately 75 miles from the Texas Gulf Coast and, as it has in the past, could be impacted by high winds, heavy rains, and flooding caused by hurricane, tornado, tropical storm, or other adverse weather event. In the event that a natural disaster should damage or destroy improvements and personal property in the Service Area, the assessed value of such taxable properties could be substantially

reduced, resulting in a decrease in the taxable assessed value in the Service Area or an increase in the Participant's tax rates. See "TAXING PROCEDURES – Valuation of Property for Taxation."

There can be no assurance that a casualty loss to taxable property within the Service Area will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the Service Area that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the Service Area are adversely affected.

Marketability

The Regional District has no understanding (other than the initial reoffering yields) with the winning bidder for the Bonds (the "Initial Purchaser") regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold, or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Continuing Compliance with Certain Covenants

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

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.

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 the Regional District which is recovered by the Regional District 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 bond insurer at such time and in such amounts as would have been due absence such prepayment by the Regional District unless the bond insurer chooses to pay such amounts at an earlier date.

Under most circumstances, 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 "MUNICIPAL BOND INSURANCE."

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 Regional District nor the Initial Purchaser 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 Participants 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 "MUNICIPAL 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.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution. A copy of the Bond Resolution may be obtained from the Regional District upon written request made to the Regional District's Bond Counsel, Allen Boone Humphries Robinson LLP, Phoenix Tower, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

The Bonds are dated August 1, 2023, and will accrue interest from the initial date of delivery, which is expected to be on or about August 22, 2023 (the "Date of Delivery"), with interest payable May 1, 2024, and on each November 1 and May 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds are fully-registered bonds maturing on November 1 of the years shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on the inside cover page of this Official Statement. Principal of the Bonds will be payable to the registered owners at maturity or redemption upon presentation at the principal payment office of the paying agent/registrar, initially, BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to Registered Owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding the Interest Payment Date (the "Record Date") 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.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Bonds are registered in its nominee's 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 Regional District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

DTC 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 required by

an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Redemption proceeds, principal and interest 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 Regional District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent/Registrar or the Regional District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Regional District or 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 Regional District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in the section concerning DTC and DTC's book-entry system has been obtained from sources that the Regional District believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the book-entry form, references in other sections herein to Registered Owners should be read to include the person for which the Direct and Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to Registered Owners under the Bond Order will be given only to DTC.

Successor Paying Agent/Registrar

Provision is made in the Bond Resolution for replacing the Paying Agent/Registrar. If the Regional District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the Regional District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Houston, Texas. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Bondholder.

The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Bondholder or assignee of the Bondholder within not more than three (3) business days after the receipt by the Paying Agent/Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. Neither the Paying

Agent/Registrar nor the Regional District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the Regional District or Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Redemption of the Bonds

Optional Redemption

Bonds maturing on November 1, 2031, and thereafter shall be subject to redemption and payment at the option of the Regional District, in whole or from time to time in part, on November 1, 2030, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the Regional District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Mandatory Redemption

The Bonds that mature on November 1 of the years 2033 and 2038 (“Term Bonds”), are also subject to mandatory sinking fund redemption by the Regional District by lot or other customary random method prior to scheduled maturity on November 1 in the years set out below (“Mandatory Redemption Dates”) and in the amounts set forth below, subject to proportionate reductions as described below, at a redemption price of par plus accrued interest to the date of redemption:

\$2,050,000 Term Bonds Maturing on November 1, 2033	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
November 1, 2029	\$370,000
November 1, 2030	\$390,000
November 1, 2031	\$410,000
November 1, 2032	\$430,000
November 1, 2033 (Maturity)	\$450,000
\$1,620,000 Term Bonds Maturing on November 1, 2038	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
November 1, 2036	\$515,000
November 1, 2037	\$540,000
November 1, 2038 (Maturity)	\$565,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of

such Term Bond, which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the Regional District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Mutilated, Lost, Stolen or Destroyed Bonds

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

Authority for Issuance

At separate elections held within the boundaries of each Participant, the voters of each Participant approved the Regional District Contract. Under the Regional District Contract, the Regional District is to serve as the provider of the Regional District Facilities. The Regional District Contract authorizes the Regional District to issue \$610,227,000 principal amount of Contract Revenue System Bonds and \$199,661,000 principal amount of Contract Revenue Road Bonds. See "THE BONDS – Issuance of Additional Debt." The Regional District Contract also authorizes the Regional District to refund any outstanding Contract Revenue Bonds.

The Bonds are issued by the Regional District pursuant to the Regional District Contract approved by the voters of each Participant, the terms and conditions of the Bond Resolution authorizing the issuance of the Bonds, an order of the TCEQ, an election held within the Regional District and passed by a majority of the participating voters, the Act, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and the general laws of Texas relating to the issuance of bonds by political subdivisions in Texas.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment, the sufficiency of the Contract Payments to pay principal of and interest on the Bonds or upon the adequacy of the information contained in this Official Statement.

Outstanding Bonds

The Regional District has previously issued two series of contract revenue bonds for financing Regional District Facilities as follows: \$12,480,000 Contract Revenue Bonds, Series 2022, and \$10,400,000 Contract Revenue Road Bonds, Series 2022. As of June 1, 2023, all \$22,880,000 principal amount of such prior issuances of bonds by the Regional District remained outstanding (the "Outstanding Bonds").

Issuance of Additional Debt

Pursuant to the Regional District Contract, the Regional District is authorized to issue \$610,227,000 principal amount of Contract Revenue System Bonds and \$199,661,000 principal amount of Contract Revenue Road Bonds. The Regional District Contract also authorizes the Regional District to refund any outstanding Contract Revenue Bonds. Pursuant to the Regional District Contract, approval by each Participant and approval by the voters at an election held by each Participant is required prior to any amendment to the Regional District Contract that would increase such authorized amounts. By execution of the Regional District Contract between the Regional District and each Participant, each Participant is obligated to pay its pro rata share of debt service on the Contract Revenue Bonds issued by the Regional District to finance the Regional District Facilities, including the Bonds. The Outstanding Bonds, the Bonds, and all additional Contract Revenue Bonds issued by the Regional District will be payable from the Contract Tax.

Pursuant to the Regional District Contract and after the issuance of the Bonds, the Regional District will have \$583,497,000 principal amount of Contract Revenue System Bonds and \$189,261,000 principal amount of Contract Revenue Road Bonds remaining authorized but unissued. The Regional District Contract (except as described above) and the Bond Resolution imposes no limitation on the amount of Contract Revenue Bonds the Regional District may issue payable from the Contract Tax. See "RISK FACTORS – Future Debt."

Each Participant may issue unlimited tax bonds for water, wastewater, drainage, road, and park and recreational services, with any required approval of the TCEQ, necessary to provide and maintain improvements and facilities to serve land within their respective boundaries consistent with the purposes for which the Regional District or such other Participant was created. TCEQ approval is not currently required for the Regional District or any Participant to issue bonds for the purpose of constructing or acquiring road facilities. See "APPENDIX A – Certain Financial Information Regarding the Participants" for a description of the voter authorized bonds, principal amount of bonds issued (if any), and principal amount of bonds outstanding for each Participant.

At an election held on May 1, 2021, voters of MUD 4 authorized MUD 4's issuance of the following: \$27,610,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing internal facilities necessary to provide water, sanitary sewer, and storm water drainage systems serving MUD 4; \$8,284,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by MUD 4 for acquiring or constructing facilities necessary to provide water, sanitary sewer, and storm water drainage systems serving MUD 4; \$28,545,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing roads and improvements in aid thereof to serve MUD 4; \$8,564,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by MUD 4 for acquiring or constructing roads and improvements in aid thereof to serve MUD 4; \$23,285,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities in MUD 4; and \$6,986,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by MUD 4 for acquiring or constructing parks and recreational facilities in MUD 4. To date, MUD 4 has issued no bonds for internal facilities from such voted authorizations from the May 1, 2021 election.

Source of Payment

The Bonds are payable solely from payments the Participants make to the Paying Agent/Registrar for the purpose of paying the debt service on the Bonds pursuant to the requirements of the Regional District Contract. The Regional District Contract provides that all Participants shall pay a pro rata share of debt service on any Contract Revenue Bonds issued by the Regional District, including the Outstanding Bonds and the Bonds, based upon each Participant's Gross Certified Assessed Valuation as a percentage of the Gross Certified Assessed Valuation of all Participants. The debt service requirements shall be calculated to include the charges and expenses of paying agents and registrars utilized in connection with Contract Revenue Bonds, the principal, interest, and redemption requirements of the Contract Revenue Bonds and all amounts required to establish and maintain funds established under the Bond Resolution. Each Participant is obligated to pay its pro rata share of the Contract Payments, from the Contract Tax, revenues derived from the operation of its water distribution and wastewater collection systems or from any other legally available funds of such Participant. Each Participant's pro rata share of debt service requirements will be calculated annually by the Regional District; however the levy of a Contract Tax for the purpose of paying debt service on the Contract Revenue Bonds is the sole responsibility of each Participant. The Bonds are special obligations of the Regional District payable solely from the Contract Payments and are not obligations of the State of Texas; Harris County, Texas; Waller County, Texas; the City of Houston, Texas; any of the Participants (except the Regional District); or any entity other than the Regional District.

Contract Payments by the Participants

Principal of and interest on the Bonds are payable from and secured by each Participant's unconditional obligation to make Contract Payments. By execution of the Regional District Contract, each Participant has agreed to make a Contract Payment in an amount equal to its pro rata share of the annual debt service on the Contract Revenue Bonds plus all the charges and expenses of paying agents and registrars, and all amounts required to establish and maintain funds established under the Bond Resolution based upon its Gross Certified Assessed Valuation as a percentage of the total Gross Certified Assessed Valuation of all Participants. Each Participant is obligated to make such payments from the proceeds of the Contract Tax levied by such Participant on property within its boundaries for such purpose, revenues, if any derived from the operation of its water distribution and wastewater collection systems or from any other lawful source of funds. See "Source of Payment." No Participant is liable for the payments due by any other Participant. See "REGIONAL DISTRICT CONTRACT." The Regional District shall calculate on or before September 1 of each year, or as soon thereafter as practical, the amount of Contract Payments due from each Participant in the following calendar year. The

Contract Payments shall be billed to each Participant by the Regional District on or before September 1 of the year prior to the year in which such Contract Payments become due, or as soon thereafter as practical. Such Contract Payments shall be due and payable from each Participant to the Paying Agent/Registrar semiannually by the dates specified by the Regional District. The Regional District specified March 1 and September 1 of each year as the dates by which Contract Payments are due to the Paying Agent/Registrar. The Bond Resolution provides that the Contract Payments will be paid directly to the Paying Agent/Registrar semiannually on or before March 1 and September 1 of each year.

Unconditional Obligation to Pay

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

Funds

The Contract Revenue System Debt Service Fund is confirmed in the Bond Resolution. At closing of the Bonds, twelve (12) months of capitalized interest on the Bonds will be deposited into the Contract Revenue System Debt Service Fund.

The proceeds from the Contract Payments collected for and on account of Contract Revenue System Bonds (including the Bonds) shall be deposited into the Contract Revenue System Debt Service Fund. Proceeds from the Contract Payments collected for and on account of Contract Revenue Road Bonds shall be deposited into the Contract Revenue Road Debt Service Fund (which includes each Participant's pro rata share of the respective debt service requirements). The Bond Resolution does not provide for segregated reserve funds. The Regional District's annual calculation of the debt service requirement to be paid by the Participants shall include no more than the sum of next year's annual debt service requirements and, at the option of the Regional District, an amount up to 50% of the following year's annual debt service requirements, which when paid by the Participants, will be deposited into the respective debt service fund.

The Regional District further covenants that if at any time the fund balance in either the Contract Revenue System Debt Service Fund or the Contract Revenue Road Debt Service Fund falls below 10% of the following year's debt service requirement for the respective bonds, it will levy the maximum amount allowed under the Bond Resolution (100% of the next year's debt service requirement plus 50% of the following year's debt service requirement) until such time that the debt service fund balance in the respective fund exceeds 50% of the next year's debt service requirement.

There is no trust estate or trust indenture securing the payment of the Bonds and no trustee to enforce a mandamus action on behalf of Registered Owners. There is no reserve fund securing the payment of the Bonds. See "RISK FACTORS – Registered Owners' Remedies and Bankruptcy."

No Arbitrage

The Regional District will certify, on the date of delivery of the Bonds, that based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the Regional District reasonably expects that the proceeds of the Bonds will not be used in a manner that would

cause the Bonds, or any portion of the Bonds, to be “arbitrage bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations prescribed thereunder. Furthermore, all officers, employees and agents of the Regional District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the Regional District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the Regional District are authorized to certify to the facts and circumstances and reasonable expectations of the Regional District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the Regional District covenants that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

Continuing Compliance with Certain Covenants

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

Annexation

Under existing Texas law, since each Participant lies wholly within the extraterritorial jurisdiction (“ETJ”) of the City, each Participant must conform to a City consent ordinance. Generally, each Participant may be annexed by the City without the Participant’s consent, and the City cannot annex territory within the Participant unless it annexes the entire Participant; however, the City may not annex a Participant 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 (“SPA”) between the City and a Participant specifying the procedures for full purpose annexation of all or a portion of the Participant. None of the Participants currently have a SPA with the City of Houston.

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

Consolidation

The Regional 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 Regional District System Facilities) and liabilities (such as the Bonds), with the assets and liabilities of a district with which it is consolidating. Although no consolidation is presently contemplated by the Regional District, no representation is made concerning the likelihood of consolidation in the future.

Defeasance

The Bond Resolution provides that the Regional District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest, and the redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of Texas a sum of money equal to principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the Regional 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 non-callable obligations of the United States, (b) non-callable 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 Regional 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) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Regional 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 Regional 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 Regional District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is an excerpt from Section 49.186 of the Texas Water Code and is applicable to the Regional District:

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

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

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

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

Registered Owners' Remedies

Pursuant to Texas law, the Bond Resolution provides that, in the event the Regional District defaults in the payment of principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Resolution into the applicable debt service fund, or defaults in the observance or performance of any of the other covenants, conditions, or obligations set forth in the Bond Resolution, any Registered Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the

Regional District to make such payments or to observe and perform such covenants, obligations, or conditions. Such right is in addition to other rights the Registered Owners may be provided by the laws of Texas.

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners may seek a writ of mandamus requiring the Participants to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Resolution does not specifically provide for remedies to a Registered Owner in the event of a Regional District default, nor does it provide for the appointment of a trustee 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. Although the Registered Owners could obtain a judgment against the Regional District, such a judgment could not be enforced by direct levy and execution against the property within the Service Area. Further, the Registered Owners cannot themselves foreclose on the property within the Service Area or sell property within the Service Area in order to pay principal of or interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws and principles relating to sovereign immunity, bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the Participants. For example, a Chapter 9 bankruptcy proceeding by a Participant could delay or eliminate payment of principal or interest to the Registered Owners.

Short-Term Debt

In connection with the sale of the Bonds, the Regional District has issued its \$6,095,000 Bond Anticipation Note, Series 2022A, dated December 22, 2022 (the "BAN"), and distributed proceeds from sale of the BAN as described under "THE BONDS – Use and Distribution of Bond Proceeds" below. The BAN accrues interest at a rate of 4.80% per year (computed on the basis of a 365-day year) and matures on December 16, 2023, unless called for redemption prior to maturity.

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Use and Distribution of Bond Proceeds

Proceeds of the sale of the Bonds will be used by the Regional District to redeem the BAN, the proceeds of which were used to reimburse Astro Sunterra (defined herein) for a portion of the construction costs related to (i) detention and mass grading of Sunterra Phase 1, (ii) drainage pipes and outfalls serving Sunterra, (iii) water, sewer, and drainage related to Bartlett Road, Segments 1 and 2, and (iv) land costs. Proceeds of the Bonds will also be used to reimburse Astro Sunterra for construction costs that were not reimbursed by the BAN; pay Quadvest (herein defined) connection fees for water and wastewater capacity; water, sewer, and drainage improvements related to Stockdick Road, Segment 1; pay twelve (12) months of capitalized interest on the Bonds; pay BAN interest; pay developer interest; and pay costs of issuance associated with the BAN and the Bonds. Non-construction costs are based upon either contract amounts or various cost estimates by the Regional District Engineer and the Financial Advisor. The actual amounts to be reimbursed by the Regional District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the Auditor.

<u>Construction Costs</u>	<u>District's Share</u>
A. Developer Contribution Items	
None	\$ 0
Total Developer Contribution Items	<u>\$ 0</u>
B. District Items	
1. Sunterra Phase 1 Detention & Mass Grading	\$ 531,355
2. Sunterra Drainage Pipes and Outfalls	2,058,167
3. Bartlett Road Segment 1 and 2 – W, WW, D	1,780,140
4. Stockdick Road Segment 1 – W, WW, D	712,034
5. Engineering, Testing and SWPPP	1,023,129
6. Land Costs	2,720,613
7. Connection Fees for Water Capacity (2,020 ESFCs at \$575/ESFC)	1,161,500
8. Connection Fees for Wastewater Capacity (2,020 ESFCs at \$575/ESFC)	<u>1,161,500</u>
Total District Contribution Items	<u>\$ 11,148,439</u>
Total Construction Costs	\$ 11,148,439
<u>Non-Construction Costs</u>	
A. Legal Fees	\$ 325,000
B. Fiscal Agent Fees	285,000
C. Interest	
1. Capitalized Interest (12 months)	664,169
2. Developer Interest	584,489
3. BAN Interest	194,773
D. Operating Costs	91,587
E. Bond Discount (3.00%)	427,500
F. BAN Issuance Expenses	144,287
G. Bond Engineering Report	66,000
H. Bond Issuance Expenses	38,923
I. Attorney General Fee (0.10% or a maximum of \$9,500)	9,500
J. TCEQ Bond Issuance Fee (0.25%)	35,625
K. Contingency (a)	<u>234,708</u>
Total Non-Construction Costs	\$ 3,101,561

TOTAL BOND ISSUE REQUIREMENT

\$14,250,000

The Regional District Engineer has advised the Regional District that the proceeds of the sale of the Bonds should be sufficient to reimburse Astro Sunterra for the costs of the above-described facilities. In the instance that approved estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for approved uses; however, the Regional District cannot and does not guarantee the sufficiency of such funds for such purposes.

(a) Represents the difference between estimated and actual amounts of capitalized interest on the Bonds and interest on the BAN.

THE PARTICIPANTS

Creation, Authority, and Description

MUD 4 was created by House Bill No. 4520, an act of the 86th Legislature, Regular Session, effective June 10, 2019, and codified as Chapter 8047 of the Special District Local Laws Code. Pursuant to the powers of MUD 4 under such act, MUD 4 adopted that Order Dividing District dated July 30, 2020, which resulted in the division of MUD 4 into three resulting districts, including the creation of MUD 5 and MUD 37.

MUD 569 was created by House Bill No. 2671, an act of the 86th Legislature, Regular Session, effective June 10, 2019, and codified as Chapter 8057 of the Special District Local Laws Code. MUD 35 was created by House Bill No. 3209, an act of the 86th Legislature, Regular Session, effective June 10, 2019, and codified as Chapter 8071 of the Special District Local Laws Code.

Each Participant operates under the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code, as amended, applicable to municipal utility districts created under Section 59, Article XVI of the Texas Constitution and is authorized to construct and finance road projects as provided under Section 52, Article III of the Texas Constitution. To serve the property within their boundaries, the Participants have the powers to construct, acquire, operate, maintain, and finance water, wastewater, drainage, road, and park and recreational facilities.

The Participants are empowered to exercise all the powers and functions which will permit accomplishment of the purposes for which they were created. Each Participant may also establish, operate, and maintain a fire department or contract for firefighting services, and the TCEQ and its voters have approved a plan for that purpose.

Authorized Bonds and Debt Service Tax

The Participants have the statutory authority to issue unlimited tax bonds for the purpose of providing internal water distribution, wastewater collection, storm drainage, road, and park and recreational facilities to the land within their boundaries. Such bonds are secured by a continuing direct annual ad valorem tax adequate to provide funds to pay the principal of and interest on such bonds. Such tax is in addition to the Contract Tax. See "THE PARTICIPANTS – Contract Taxes."

Each of the Participants has voted bonds for purposes of providing internal water, wastewater, drainage, road, and park and recreational facilities within their respective boundaries. See "APPENDIX A – Certain Financial Information Regarding the Participants" for a description of the voter authorized bonds, principal amount of bonds issued (if any) and principal amount of bonds outstanding for each Participant.

Operations

Each Participant has or will construct internal water, wastewater, and drainage facilities, and may also construct internal road and park and recreational facilities, within its respective boundaries. Pursuant to the Regional District Contract, each Participant is required to purchase potable water from the Regional District and sell such water to its customers, and collect domestic wastewater from its customers, which the Regional District provides for the treatment and discharge of the wastewater. The Regional District has a contract with Quadvest (herein defined) whereby Quadvest owns and operates the regional water supply and wastewater systems serving Sunterra. See "THE REGIONAL DISTRICT FACILITIES."

Each Participant sets its own retail rates for water distribution and wastewater collection services and is required by the Regional District Contract to do so at a level which will produce sufficient revenue to pay operating and maintenance charges of the Regional District, to pay other costs of operating and maintaining its own System (herein defined), and, together with tax revenues, to pay its Contract Payments. The Regional District does not expect that revenues from Participants' retail charges will ever be sufficient to pay a significant portion of Contract Payments for application to debt service on the Contract Revenue Bonds, including the Bonds.

Contract Taxes

The Regional District has the authority to issue Contract Revenue Bonds, including the Bonds. Each Participant's pro rata share of the debt service requirements on the Contract Revenue Bonds shall be

determined by dividing each Participant's Gross Certified Assessed Valuation by the total of all Participants' Gross Certified Assessed Valuation, calculated annually. Calculation of Contract Payments, including the Contract Payments, is based upon the Gross Certified Assessed Valuation and does not make allowances for any exemptions granted by the Participant's however, allowances are made for exemptions provided under State law that do not require action by the Participants. See "TAXING PROCEDURES." The Regional District Contract obligates each Participant to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of annual Contract Taxes without legal limit as to rate or amount, from revenues derived from the operation of its water distribution and wastewater collection systems, or from any other legally available funds. The Regional District does not expect that revenues from the Participants' wastewater collection and water distribution systems will ever be sufficient to pay a significant portion of the Contract Payments for application to debt service on the Contract Revenue Bonds, including the Bonds. The debt service requirement shall include principal, interest, and redemption requirements on the Contract Revenue Bonds, paying agent/registrar fees, and all amounts necessary to establish and maintain funds established under a bond resolution.

The Participants have the authority to levy and collect an annual ad valorem tax for the operation and maintenance of facilities. A maintenance and operations tax is in addition to taxes which the Participant is authorized to levy for paying principal of and interest on its unlimited tax bonds and the Contract Tax.

Management

Each Participant is governed by a board of directors, consisting of five (5) members, which has control and management of all affairs of such Participant. Directors of each Participant are elected by the voters within that Participant to serve four (4)-year staggered terms. All such directors reside or own property within the Participant on whose board they serve. None of the Participants have any employees. Each Participant contracts for all services required to maintain its operations. The TCEQ exercises continuing supervisory jurisdiction over each Participant, and, in addition, operation of each Participant's water, wastewater, and drainage facilities is subject to regulation by other agencies.

Financial Data

See "APPENDIX A – Certain Financial Information Regarding the Participants" for financial information for each Participant.

REGIONAL DISTRICT CONTRACT

MUD 4 and the other Participants have executed the Regional District Contract with the Regional District for the financing, operation, and maintenance of the regional facilities described below and obtained the approval of the Regional District Contract from voters at elections held within their respective boundaries. The Regional District, in its capacity as the provider for the Regional District Facilities, will construct the Regional District Facilities and provide services from those Regional District Facilities.

The Regional District Contract provides that all Participants shall pay a pro rata share of debt service on the Contract Revenue Bonds, including the Bonds, based upon each Participant's Gross Certified Assessed Valuation as a percentage of the Gross Certified Assessed Valuation of all the Participants, calculated annually. Calculation of the Contract Payment is based upon Gross Certified Assessed Valuation and does not make allowances for any exemptions granted by the Participants. Each Participant is obligated to pay its pro rata share of the annual debt service payments from the proceeds of annual ad valorem property taxes, including the Contract Tax, without legal limit as to rate or amount, revenues derived from the operation of its water distribution and wastewater collection system or from any other legally available funds. The Contract Tax shall be calculated to include the charges and expenses of paying agents and registrars utilized in connection with the Contract Revenue Bonds, including the Outstanding Bonds and the Bonds, the principal, interest, and redemption requirements of the Contract Revenue Bonds and all amounts required to establish and maintain funds established under the applicable bond resolution. Each Participant's Contract Payment will be calculated annually by the Regional District; however, the levy of a Contract Tax or the provisions of other funds to make its contract payments is the sole responsibility of each Participant.

The Regional District Contract also provides for operation and maintenance expenses for facilities constructed pursuant to the Regional District Contract; duties of the parties; establishment and maintenance of funds; assignment; arbitration; amendments; force majeure; insurance; and other provisions.

The Regional District is the financing vehicle for all Regional District Facilities and will own and operate all Regional District System Facilities (except for roadways that are accepted by Harris County or Waller County, as applicable, for operation and maintenance).

Each Participant will own and operate its internal facilities. The internal facilities are expected to be financed with unlimited tax bonds sold by each of the Participants. It is anticipated that the Regional District Facilities will be constructed in stages to meet the needs of a continually expanding population within the Service Area. In the event that the Regional District fails to finance or provide Regional District System Facilities as required by the Service Area, each Participant has the right pursuant to the Regional District Contract to design, acquire, construct, or expand the Regional District System Facilities needed to provide it with service.

Each Participant is further obligated to pay monthly charges to the Regional District, for water and wastewater services rendered pursuant to the Regional District Contract. The monthly charges to be paid by each Participant to the Regional District will be used to pay its share of operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. Each Participant's share of operation and maintenance expenses is based upon a "unit cost" of operation and maintenance expense, calculated by the Regional District and expressed in terms of "cost per equivalent single-family residential connection." Each Participant's monthly payment to the Regional District for operation and maintenance expenses will be calculated by multiplying the number of ESFCs reserved to it on the first day of the previous month by the unit cost per ESFC.

Pursuant to the Regional District Contract, each Participant is obligated to establish and maintain rates, fees, and charges for its water and wastewater services which, together with taxes levied and funds received from any other lawful sources, are sufficient at all times to pay operation and maintenance charges of the Regional District, to pay other costs of operating and maintaining its own utility system, and to pay its obligations pursuant to the Regional District Contract, including its Contract Payments. The Regional District does not expect that revenues from the Participants' wastewater collection and water distribution systems will ever be sufficient to pay a significant portion of Contract Payments for application to debt service on the Contract Revenue Bonds, including the Bonds. All sums payable by each Participant to the Regional District pursuant to the Regional District Contract are to be paid by such Participant without set off, counterclaim, abatement, suspension, or diminution. If any Participant fails to pay its share of these costs in a timely manner, the Regional District Contract provides that the Regional District shall be entitled to cancel, in whole or in part, any reservation or allocation of capacity in the Regional District's facilities by such Participant in addition to the Regional District's other remedies pursuant to the Regional District Contract. As a practical matter, the Participants have no alternative provider of the water and wastewater services rendered by the Regional District under the Regional District Contract. See "THE BONDS – Source of Payment."

Each Participant is obligated severally, but not jointly, to make Contract Payments to the Regional District in an amount sufficient to pay its debt service requirements on Contract Revenue Bonds. No Participant is obligated, contingently or otherwise, to make any Contract Payments owed by any other Participant; however, lack of payment by any Participant could result in an increase in the Contract Payment amount paid by each of the other Participants.

THE REGIONAL DISTRICT

Management of the District

The Regional District is governed by its Board of Directors (the “Board”) consisting of five directors, who have control over and management supervision of all affairs of the Regional District. All of the directors own property in the Regional District. The directors serve staggered, four-year terms. Elections are held in even-numbered years in May. The current members and officers of the Board are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires May</u>
Rhonda Patterson	President	2024
Erica Tabrizi	Vice President	2024
Ruth Delaunay	Secretary	2024
Way Denkler	Assistant Secretary	2026
Sabrina Alaquinez	Assistant Vice President	2026

Investment Policy

The Regional District has adopted an Investment Policy (the “Investment Policy”) as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the “Public Funds Investment Act”). The Regional District’s goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the Regional District are to be invested only in accordance with the Investment Policy. The Investment Policy states that the funds of the Regional District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation (“FDIC”) and secured by collateral authorized by the Public Funds Investment Act, and in TexPool and TexStar, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The Regional District does not currently own, nor does it anticipate, the inclusion of long-term securities or derivative products in the portfolio.

Consultants

Although the Regional District does not have a general manager or any other full-time employees, it has contracted for utility system operating, bookkeeping, tax assessing and collecting, auditing, engineering, and legal services as follows:

Tax Assessor/Collector: The tax assessor/collector for the Regional District is Bob Leared Interests.

Bookkeeper: The Regional District’s bookkeeper is Myrtle Cruz, Inc.

Utility System Operator: Municipal District Services, LLC is the operator of the System.

Auditor: As required by the Texas Water Code, the Regional District retains an independent auditor to audit the Regional District’s financial statements annually, which annual audit is filed with the TCEQ. The Regional District engaged McGrath & Co., PLLC as its auditor for the fiscal year ended April 30, 2022, which audited financial statements are included herein under “APPENDIX B.”

Engineer: The Regional District’s engineer is Quiddity Engineering, LLC. (the “Engineer”).

Attorney: The Regional District has engaged Allen Boone Humphries Robinson LLP, Houston, Texas, as general counsel to the Regional District and as bond counsel (“Bond Counsel”) in connection with the issuance of the Bonds. The fees to be paid to Bond Counsel in connection with the issuance of the Regional Bonds are contingent upon the sale and delivery of the Bonds. See “LEGAL MATTERS.”

Disclosure Counsel: The Regional District has engaged McCall, Parkhurst & Horton L.L.P., Houston, Texas, as disclosure counsel (“Disclosure Counsel”) in connection with the issuance of the Bonds. The fees to be paid to

Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Financial Advisor: Robert W. Baird & Co. Incorporated serves as financial advisor (“Financial Advisor”) to the Regional District in connection with the issuance of the Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

The Service Area

The Service Area contains approximately 2,303.88 acres. This approximate 2,303.88 acres is comprised of the land within MUD 4 (140.29 acres), MUD 5 (489.32 acres), MUD 37 (410.07 acres), MUD 569 (568.04 acres), and MUD 35 (696.16 acres). The Participants (MUD 4, MUD 5, MUD 37, MUD 569, and MUD 35) have entered into the Regional District Contract with the Regional District. Pursuant to the Regional District Contract, the Regional District is obligated to provide the Regional District Facilities to serve the land in the Service Area. A portion of the Service Area is located in Harris County, Texas, and a portion of the Service Area is located in Waller County, Texas, approximately 30 miles west of the central business district of the City of Houston, Texas. The Service Area is located entirely within the extraterritorial jurisdiction of the City of Houston, Texas. A portion of the Service Area lies within the Katy Independent School District, and a portion of the Service Area lies within Royal Independent School District.

Status of Development Within the Service Area

Within the Service Area, approximately 1,127.05 acres (4,182 lots) have been developed as the single-family residential subdivisions of Sunterra, Sections 1–44, 46, 49, and 50. As of June 1, 2023, approximately 990 homes were complete (approximately 818 occupied and approximately 172 unoccupied), approximately 578 homes were under construction, and approximately 2,614 lots were developed and vacant.

Homebuilders Active Within the Service Area

The homebuilders active within the Service Area are Adams Homes, Anderson Homes, Anglia Homes, Ashton Woods Homes, Beazer Homes, Brightland Homes, CastleRock Communities, Centex Homes, Chesmar Homes, Colina Homes, Davidson Homes, D.R. Horton, Empire, Hamilton Thomas Homes, Highland Homes, HistoryMaker Homes, KB Home, Lennar Homes, LGI Homes, Long Lake, Perry Homes, Pulte Homes, Shea Homes, TriCoast Homes, and Westin Homes. Prices of new homes being constructed within the Service Area range from approximately \$260,000 to \$800,000 and range in size from approximately 1,400 to 4,000 square feet.

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General Fund Operating Statement

The following is a summary of the Regional District's operating fund activity. The summary below has been prepared by the Financial Advisor based upon information obtained from the Regional District's audited financial statements for the fiscal year ended April 30, 2022. Reference is made to such statements for further and more complete information. See "APPENDIX B."

	<u>Fiscal Year Ended April 30,</u>	
	<u>2022</u>	<u>2021</u>
<u>Revenues</u>		
Interest and other	\$ -	\$ 8
Total Revenues	\$ -	\$ 8
 <u>Expenditures</u>		
Purchased Services	\$ 684	\$ -
Professional Fees	156,841	183,508
Contracted Services	6,680	6,400
Administrative	13,091	12,574
Other	<u>3,029</u>	<u>1,348</u>
Total Expenditures	\$ 180,325	\$ 203,830
 Revenues Excess (Deficiency)	 \$ (180,325)	 \$ (203,822)
 <u>Other Financing Sources</u>		
Operating Advances	\$ 50,000	\$ 50,000
 Net Change in Fund Balance	 \$ (130,325)	 \$ (153,882)
 Fund Balance	 \$ (153,882)	 \$ -
Beginning of the Year	\$ (284,147)	\$ (153,882)

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**PHOTOGRAPHS TAKEN WITHIN THE SERVICE AREA
(June 2023)**



THE DEVELOPERS

Role of the Developer

In general, the activities of a developer in a municipal utility district such as the Participants include purchasing the land, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In most instances, the developer will be required to pay up to thirty percent of the cost of constructing certain of the water, wastewater and drainage facilities in a utility district pursuant to the rules of the TCEQ. The relative success or failure of a developer to perform such activities in development of the property within a utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

Developers

The original developer in the Service Area was Katy 1039, Ltd. (the "Original Developer"), a Texas limited partnership and single purpose entity created by Land Tejas Companies, Ltd. solely for the purpose of developing the land located within the District. The General Partner of the Original Developer is L.T. Management, Inc., whose president is Mr. Al P. Brende. Mr. Brende is also the President of Land Tejas Companies, Ltd.

In December 2021, the Original Developer sold its interest in the project to Astro Sunterra, L.P., a Delaware limited partnership ("Astro Sunterra"), which is the current primary developer of land in the Service Area. Astro Sunterra was established by Mr. Al Brende and Starwood Land Astro Venture LP as a special purpose entity for the purpose of developing land and marketing developed land within the Service Area. Starwood Land Astro Venture LP has entered into a management agreement with Land Tejas Companies, Ltd. for the purpose of managing the day-to-day development activities within the Service Area.

According to Astro Sunterra, the primary assets of Astro Sunterra consist of its land in the Service Area and reimbursements due from the Regional District. Further, according to Astro Sunterra, it is currently operating with a net income, with its income comprised almost entirely of revenues from the sale of real estate.

In addition, Pulte Homes of Texas, L.P., a Texas limited partnership ("Pulte"), is the developer of Sunterra, Sections 10, 12, and 13 within the Service Area. Pulte is affiliated with PulteGroup, Inc., which is publicly traded company on the New York Stock Exchange under the ticker symbol "PHM." For more information, visit www.pultegroupinc.com.

HMH Sunterra Land, LLC, a Texas limited liability company ("HMH Sunterra"), is the developer of Sunterra, Sections 18, 19, 20, and 22 within the Service Area. ONML Villas at Sunterra, LLC, a Texas limited liability company ("ONML Villas"), is the developer of Sunterra, Section 21 within the Service Area. HMH Sunterra and ONML Villas are affiliated with HistoryMaker Homes, a privately owned homebuilder active in the North Texas and Houston markets.

KB Home Lone Star Inc, a Texas corporation ("KB Home Lone Star"), is the developer of Sunterra, Sections 28 and 48 within the Service Area. KB Home Lone Star is an indirect wholly owned subsidiary of KB Home, a Delaware corporation, the stock of which is publicly traded on the New York Stock Exchange under the ticker symbol "KBH." For more information, visit www.kbhome.com.

Gehan Homes, Ltd., a Texas limited partnership ("Gehan Homes"), is the developer of Sunterra, Sections 46 and 47 with the Service Area. Gehan Homes is a privately owned homebuilder active in the Texas and Arizona markets.

Beazer Homes Texas, L.P., a Delaware limited partnership (“Beazer Homes”), is the developer of Sunterra, Sections 42–45, 51, and 52 within the Service Area. Beazer Homes is a subsidiary of Beazer Homes USA, Inc., a Delaware corporation, the stock of which is publicly traded on the New York Stock Exchange under the ticker symbol “BZH.” For more information, visit www.beazer.com.

Astro Sunterra, Pulte, HMH Sunterra, ONML Villas, KB Home Lone Star, Gehan Homes, and Beazer Homes are collectively referred to herein as the “Developers.”

REGIONAL DISTRICT DEBT

General

The following tables and calculations relate to the Outstanding Bonds and the Bonds. The Regional District, the Participants, and various other political subdivisions of government which overlap all or a portion of the Regional District and the Participants are empowered to incur debt to be raised by taxation against all or a portion of the property within the Regional District and the Participants.

Regional Direct Debt:

The Outstanding Bonds (as of June 1, 2023)	\$ 22,880,000	
The Bonds	\$ <u>14,250,000</u>	
Total Direct Debt.....	\$ 37,130,000	
Estimated Overlapping Debt	\$ <u>30,719,134</u>	(a)
Total Direct and Estimated Overlapping Debt	\$ 67,849,134	(a)
Contract Revenue System Debt Service Fund Balance (as of June 14, 2023).....	\$ 741,074	(b) (d)
Contract Revenue Road Debt Service Fund Balance (as of June 14, 2023)	\$ 631,219	(c) (d)

(a) See “REGIONAL DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement.”

(b) In addition to this amount, twelve (12) months of capitalized interest will be deposited into the Contract Revenue System Debt Service Fund upon closing and delivery of the Bonds. Neither Texas law nor the Bond Resolution requires that the Regional District maintain any particular sum in the Contract Revenue System Debt Service Fund. Money deposited into the Contract Revenue System Debt Service Fund can only be used to pay debt service on the Contract Revenue System Bonds, such as the Bonds. Funds deposited into the Contract Revenue System Debt Service Fund are not pledged to the Contract Revenue Road Bonds.

(c) Neither Texas law nor the Bond Resolution requires that the Regional District maintain any particular sum in the Contract Revenue Road Debt Service Fund. Money deposited into the Contract Revenue Road Debt Service Fund can only be used to pay debt service on the Contract Revenue Road Bonds. Funds deposited into the Contract Revenue Road Debt Service Fund are not pledged to the Contract Revenue System Bonds, such as the Bonds.

(d) Each Participant is obligated to pay a pro rata share of debt service on the Contract Revenue Bonds by the dates specified by the Regional District. See “THE BONDS – Contract Payments by the Participants,” “THE BONDS – Unconditional Obligation to Pay,” and “REGIONAL DISTRICT CONTRACT.”

Assessed Valuations of the Participants

Participant	2022 Gross		2023 Gross	
	Certified Assessed Valuation (a)	Percent of Total	Preliminary Assessed Valuation (b)	Percent of Total
MUD 4	\$ 5,700,706	4.47%	\$ 5,370,027	1.05%
MUD 5	64,323,851	50.46%	358,070,701	70.21%
MUD 37	18,607,952	14.60%	103,987,495	20.39%
MUD 569	4,546,687	3.57%	10,719,503	2.10%
MUD 35	34,297,448	26.90%	31,859,527	6.25%
Total	\$ 127,476,644	100.00%	\$ 510,007,253	100.00%

- (a) Represents the gross assessed valuation as of January 1, 2022, of all taxable property in the Participant, as provided by the Waller County Appraisal District and the Harris Central Appraisal District, as applicable. See "TAXING PROCEDURES" and "TAX DATA."
- (b) Represents the preliminary determination of gross assessed valuation as of January 1, 2023, of all taxable property of all Participants in the Service Area, as provided by the Waller County Appraisal District and the Harris Central Appraisal District, as applicable. This preliminary value is subject to protest by the owners of taxable property in the Service Area. No taxes will be levied on this preliminary value. See "TAX DATA" and "TAXING PROCEDURES."

Tax Rates of the Participants

The Participants pay contract payments to the Regional District each March 1 and September 1 in equal amounts. The contract payment calculations for each Participant are based on the Participant's Gross Certified Assessed Valuation, as defined in the Regional District Contract, and does not make allowance for any exemptions granted by the Participant. See "REGIONAL DISTRICT CONTRACT."

Participant	2022	2022	2022	2022
	Debt Service Tax Rate	Maintenance Tax Rate	Contract Tax Rate (a)	Total Tax Rate
MUD 4	\$ 0.000	\$ 1.500	\$ 0.000	\$ 1.500
MUD 5	0.220	0.870	0.410	1.500
MUD 37	0.000	1.500	0.000	1.500
MUD 569	0.000	1.500	0.000	1.500
MUD 35	0.000	1.500	0.000	1.500

- (a) For the 2022 tax year, only MUD 5 has levied a Contract Tax for its Contract Payment. The Regional District Contract provides that a Participant may make Contract Payments from the proceeds of the Contract Tax or from any other lawful sources, which include proceeds from the Participant's levy of a maintenance tax rate and operating funds advanced by the Developers. See "RISK FACTORS - Dependence on Major Taxpayers and the Developers."

Debt Ratios

Ratios of Direct Debt (a):

As a percentage of the 2022 Gross Certified Assessed Valuation of the Participants.....	29.13 %
As a percentage of the 2023 Gross Preliminary Assessed Valuation of the Participants.....	7.28 %

Ratios of Direct and Estimated Overlapping Debt (a):

As a percentage of the 2022 Gross Certified Assessed Valuation of the Participants.....	53.22 %
As a percentage of the 2023 Gross Preliminary Assessed Valuation of the Participants.....	13.30 %

(a) Includes the Bonds.

Estimated Direct and Overlapping Debt Statement

Other governmental entities whose boundaries overlap the Regional District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas, or other available information. Except for the amount relating to the Regional District, the Regional 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 since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. Political subdivisions overlapping the Regional 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. Totals may not sum due to rounding.

Taxing Jurisdiction	Outstanding Debt May 31, 2023	Overlapping	
		Percent	Amount
Waller County	\$ 71,955,000	1.04%	\$ 750,268
Katy Independent School District (a)	2,273,301,460	0.17%	3,914,407
Royal Independent School District (a)	57,107,994	0.44%	250,660
Harris County	1,770,442,125	0.00% (b)	25,025
Harris County Flood Control District	797,615,000	0.00% (b)	11,274
Harris County Department of Education	13,865,000	0.00% (b)	196
Harris County Hospital District	70,970,000	0.00% (b)	1,003
Port of Houston Authority	445,749,397	0.00% (b)	6,301
Harris-Waller Counties MUD No. 5 (c)	21,565,000	100.00%	21,565,000
Waller County MUD No. 37 (d)	4,195,000	100.00%	<u>4,195,000</u>
Total Estimated Overlapping Debt			\$ 30,719,134
The Regional District (e)			<u>\$ 22,880,000</u>
Total Direct & Estimated Overlapping Debt (e).....			\$ 67,849,134

(a) The portion of the Service Area within MUD 35 is located in Royal Independent School District. The remainder of the Service Area is located in Katy Independent School District.

(b) A portion of the Service Area is located in Harris County, Texas. The 2022 taxable assessed value of such property located within the Service Area in Harris County represents less than 0.001% of the value of the Harris County taxing jurisdictions noted above.

(c) The outstanding debt of MUD 5 noted above includes the \$9,215,000 principal amount of bonds issued in 2022 plus \$12,350,000 Unlimited Tax Bonds, Series 2023, that MUD 5 anticipates issuing in the third quarter of 2023.

(d) The outstanding debt of MUD 37 noted above includes the \$4,195,000 Unlimited Tax Bonds, Series 2023, that MUD 37 anticipates issuing in the third quarter of 2023.

(e) Includes the Bonds.

TAXING PROCEDURES

Authority to Levy Taxes

Each Participant is authorized to levy a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within its boundaries in sufficient amount to pay the principal of and interest on any unlimited tax bonds issued by it, Contract Payments on the Contract Revenue Bonds, including the Outstanding Bonds and the Bonds, that the Regional District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. Voters within each Participant have also authorized the levy of a maintenance and operations tax not to exceed \$1.500 per \$100 valuation for the operation and maintenance of water, wastewater, drainage, and park and recreational facilities and a maintenance and operations tax not to exceed \$0.250 per \$100 valuation for the operation and maintenance of road facilities.

Property Tax Code and County wide Appraisal District

Title I of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of Texas. Provisions of the Property Tax Code are complex and are not fully summarized herein. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Waller County Appraisal District has the responsibility of appraising property for all taxing units within Waller County, and the Harris Central Appraisal District has the responsibility of appraising property for all taxing units within Harris County. Such appraisal values will be subject to review and change by the Waller County Appraisal Review Board or Harris County Appraisal Review Board (the "Appraisal Review Board," as applicable). The appraisal roll, as approved by the Appraisal Review Board, will be used by the Participants in establishing their tax rolls and tax rate. See "TAXING PROCEDURES – Valuation of Property for Taxation."

Property Subject to Taxation by the Participants

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in in each Participant are subject to taxation by that Participant. Principal categories of exempt property include, but are not limited to: property owned by 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; certain 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, each Participant may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board. The Participants may be required to offer such exemptions if a majority of voters approve same at an election. The Participants would be required to call an election upon petition by 20% of the number of qualified voters who voted in the preceding election. The Participants are authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the Participant's obligation to pay tax supported debt incurred prior to adoption of the exemption by the Participant. Furthermore, the Participants must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. This exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a

member of the armed forces who was killed in action is entitled to an exemption of the appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. To date, no Participant has granted an exemption for persons over 65 years of age and for disabled persons.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in Texas to exempt up to 20% of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year but must be adopted before July 1. To date, none of the Participants have adopted a homestead exemption.

Freeport Goods and Goods-in-Transit Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing, or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the Participants do not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2013 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 (1) 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 Participants may, by official action and after public hearing, tax goods-in-transit 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 Participants have taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

The County may designate all or part of the area within the Service Area as a reinvestment zone. Thereafter, the County and the Participants, 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 Participants, for a period of up to 10 years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. As of

September 1, 1999, each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. To date, the County has not designated any part of the area within the Service Area as a reinvestment zone.

Harris County or Waller County may designate all or part of the Service Area within its boundaries a reinvestment zone. Thereafter, Harris County, Waller County and the Participant, 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 Participants, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. At this time, neither Harris County nor Waller County has designated any of the Service Area as a reinvestment zone.

Valuation of Property for Taxation

Generally, property in the Service Area 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 Participants in establishing their tax rolls and tax rate. Assessments under the Property Tax Code are to be based on 100% of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10% annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by one (1) political subdivision 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 Participants can collect taxes based on the new use, including taxes for the previous three (3) years, for open space land and timberland.

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

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% physically damaged by a disaster and located within an area declared to be a disaster area by the Governor. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the Participants, adopting its tax rate for the tax year. A taxing unit, such as the Participants, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal

District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

Participant and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The Participants are 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, after the legally required notice has been given to owners of property within that Participant, based upon: a) the valuation of property within that Participant as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of 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 Participant and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the Participant and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of 1% for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the Participant, may be rejected by taxing units. The Participant's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of taxes, 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.

Tax Payment Installments After Disaster

Certain qualified taxpayers, including owners of residential homesteads, located within a designated disaster area or emergency area and whose property has been damaged as a direct result of the disaster or emergency, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction, such as the Participants, if the taxpayer pays at least $\frac{1}{4}$ th of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three (3) equal installments within six (6) months of the delinquency date.

Additionally, the Property Tax Code authorizes a taxing jurisdiction, such as the Participants, solely at the jurisdiction's discretion to adopt a similar installment payment option for taxes imposed on property that is located within a designated disaster area or emergency area and is owned or leased by certain qualified

business entities, regardless of whether the property has been damaged as a direct result of the disaster or emergency.

Rollback of Maintenance and Operations Tax Rate

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

Special Taxing Units

Special Taxing Units that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, maybe required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year’s debt service and contract tax rate plus 1.08 times the previous year’s maintenance and operations tax rate.

Developed Districts

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

Developing Districts

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

The Participants

For the 2023 tax year, each Participant has made the determination of its status as a Developing District. The Participants cannot give any assurances as to what its classification will be at any point in time or whether the Participants’ future tax rates will result in a total tax rate that will reclassify the Participants into a new classification and new election calculation.

Participant’s Rights in the Event of Tax Delinquencies

Taxes levied by the Participants are a personal obligation of the owner of the property as of January 1 of the year in which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of

Texas and each taxing unit, including the Participants, having the power to tax the property. The Participants' tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims 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 Participants is determined by federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the Participants 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 Participants 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, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and other types of property after the purchaser's deed at the foreclosure sale is filed in the county records.

TAX DATA

Contract Tax

The Regional District has the authority to issue Contract Revenue Bonds. Each Participant's pro rata share of the debt service requirements on the Contract Revenue Bonds shall be determined by dividing each Participant's Gross Certified Assessed Valuation by the total of all Participants' Gross Certified Assessed Valuation, calculated annually. Calculation of the Contract Payments is based upon the Gross Certified Assessed Valuation and does not make allowances for any exemption granted by the Participants; however, allowances are made for exemptions provided under State law that do not require action by the Participants. See "TAXING PROCEDURES." The Regional District Contract obligates each Participant to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of annual unlimited Contract Taxes, from revenues derived from the operation of its water distribution and wastewater collection systems, or from any other legally available funds. The debt service requirement shall include principal, interest, and redemption requirements on the Contract Revenue Bonds, paying agent/registrar fees, and all amount necessary to establish and maintain funds established under the applicable bond resolution.

Debt Service Tax

Each Participant has the statutory authority to issue its unlimited tax bonds for the purpose of providing facilities to serve the land within its boundaries. Such bonds will be paid by a continuing direct annual ad valorem tax, without legal limit as to rate or amount, adequate to provide funds to pay the principal of and interest on such bonds. Such tax is in addition to Contract Taxes. See "APPENDIX A – Certain Financial Information Regarding the Participants" for information related to each Participant's historical tax data and authorized but unissued unlimited tax bonds.

Maintenance and Operations Tax

Each Participant has the statutory authority to levy and collect an annual ad valorem tax for maintenance purposes, including, but not limited to, funds for planning, constructing, maintaining, repairing, and operating all necessary land, plants, works facilities, improvements, appliances, and equipment, if such maintenance and operations tax is authorized by a vote of the Participant's electors. Each Participant is authorized by its voters to levy such maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation.

Each Participant is also authorized by its voters to levy a maintenance tax for road improvements in an amount not to exceed \$0.25 per \$100 of assessed valuation.

Such taxes would be in addition to Contract Taxes and taxes levied for paying principal of and interest on any unlimited tax bonds which may be issued by the Participants. See "APPENDIX A – Certain Financial Information Regarding the Participants."

Tax Rate Limitation

Contract Tax:.....	Unlimited (no legal limit as to rate or amount).
Debt Service:.....	Unlimited (no legal limit as to rate or amount).
Maintenance:.....	\$1.50 per \$100 Taxable Assessed Valuation.
Maintenance (Roads):.....	\$0.25 per \$100 Taxable Assessed Valuation.

Estimated Overlapping Taxes

Property within the Regional District is subject to taxation by several taxing authorities in addition to the Participants. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of a Participant is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of a Participant and of such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administrative, and/or general revenue purposes and the Participants are authorized to levy Contract Taxes. See “REGIONAL DISTRICT DEBT – Estimated Direct and Overlapping Debt Statements.”

Set forth below is an estimation of all taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. The following chart includes the 2022 taxes per \$100 of assessed valuation levied by all such taxing jurisdictions. No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

Taxing Jurisdiction	2022 Tax Rates	
	Waller County (a)	Harris County (b)
The Participants	\$1.500000	\$1.500000
Waller County	0.522593	---
Waller County Road	0.025852	---
Brookshire Katy Drainage District	0.065430	---
Waller Harris Emergency Service District No. 200	0.097426	0.097426
Katy Independent School District (c)	1.304800	1.304800
Harris County	---	0.343730
Harris County Flood Control District	---	0.030550
Harris County Department of Education	---	0.004900
Harris County Hospital District	---	0.148310
Port of Houston Authority	---	0.007990
Total Tax Rate	\$3.516101	\$3.437706

- (a) Approximately 1,622.36 acres of the Service Area are located in Waller County, Texas.
- (b) Approximately 681.52 acres of the Service Area are located in Harris County, Texas.
- (c) The portion of the Service Area within MUD 35 is located in Royal Independent School District. The remainder of the Service Area is located in Katy Independent School District. For the 2022 tax year, Royal Independent School District levied a total tax rate of \$1.3017.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of assessed taxable valuation which would be required to meet certain debt service requirements of the Outstanding Bonds and the Bonds if no growth in the Participant’s tax base occurs beyond the 2022 Gross Certified Assessed Valuation (\$127,476,644) or the 2023 Gross Preliminary Assessed Valuation (\$510,007,253). The calculations assume collection of 95% of taxes levied, the sale of the Bonds, but not the sale of any additional bonds by the Regional District.

Average Annual Debt Service Requirement (2023–2049)	\$2,483,112
Contract Tax Rate of \$2.06 on the 2022 Gross Certified Assessed Valuation produces.....	\$2,494,718
Contract Tax Rate of \$0.52 on the 2023 Gross Preliminary Assessed Valuation produces	\$2,519,436

Maximum Annual Debt Service Requirement (2025).....	\$2,649,081
Contract Tax Rate of \$2.19 on the 2022 Gross Certified Assessed Valuation produces.....	\$2,652,152
Contract Tax Rate of \$0.55 on the 2023 Gross Preliminary Assessed Valuation Produces.....	\$2,664,788

Gross Assessed Valuation Summary

The following represents the type of property comprising the 2022 tax rolls of each Participant as certified by the Appraisal District.

Type of Property	MUD 4 2022 Gross Certified Assessed Valuation	MUD 5 2022 Gross Certified Assessed Valuation	MUD 37 2022 Gross Certified Assessed Valuation	MUD 569 2022 Gross Certified Assessed Valuation	MUD 35 2022 Gross Certified Assessed Valuation
Land	\$5,827,080	\$55,871,227	\$18,351,960	\$4,546,687	\$34,232,328
Improvements		8,733,418	0	0	0
Personal Property	195,814	277,369	306,390	0	65,120
Exemptions	(322,188)	(558,163)	(50,398)	0	0
Total	\$5,700,706	\$64,323,851	\$18,607,952	\$4,546,687	\$34,297,448

Principal Taxpayers

The following are the principal taxpayers in the Service Area as shown on the Participant's certified appraisal rolls for the 2022 tax year.

Taxpayer	Types of Property	Gross Value 2022 Tax Roll	Percent of District Value
Astro Sunterra LP (a)	Land & Improvements	\$34,432,515	27.01%
David Wayne Freeman	Land & Improvements	18,646,900 (b)	14.63%
Shea Homes Houston LLC (c)	Land & Improvements	5,499,130	4.31%
Perry Homes LLC (c)	Land & Improvements	5,035,256	3.95%
Pulte Homes of Texas LP (a) (c)	Land & Improvements	4,923,570	3.86%
Chesmar Homes LLC (c)	Land & Improvements	4,586,490	3.60%
KB Lone Star LP (a) (c)	Land & Improvements	3,453,440	2.71%
Adams Homes Lone Star LLC (c)	Land & Improvements	2,959,400	2.32%
EHT of Texas LP (c)	Land & Improvements	2,879,715	2.26%
Highland Homes Houston LLC (c)	Land & Improvements	<u>2,398,970</u>	<u>1.88%</u>
		\$84,815,386	66.53%

(a) See "THE DEVELOPERS - Developers."

(b) Represents the value of land that is either under contract to purchase by Astro Sunterra LP or that has been conveyed to Astro Sunterra LP subsequent to the date of property ownership as shown on the above listing of top taxpayers.

(c) See "THE REGIONAL DISTRICT - Homebuilders Active Within the Service Area."

THE REGIONAL DISTRICT FACILITIES

General

The internal water distribution, wastewater collection, and stormwater facilities are being provided by the Participants. Water supply and wastewater treatment are being provided and financed by the Regional District but owned and operated by Quadvest through contractual agreement. All of such water, wastewater, and drainage facilities are referred to herein as the "System." The Regional District, pursuant to the Regional District Contract, has the responsibility to finance such regional facilities necessary to serve the Service Area.

Regulation

Construction and operation of the water, wastewater, and drainage facilities serving the Service Area is subject to regulation by all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the United States Environmental Protection Agency, TCEQ, Harris County, Waller County, the City, and the Brookshire-Katy Drainage District. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Wholesale Agreement for Water and Wastewater Service

On September 15, 2020, the Original Developer and Quadvest, L.P., a Texas Limited Partnership ("Quadvest"), entered into that Wholesale Agreement for Water and Wastewater Service (the "Wholesale Agreement") to provide water supply and wastewater treatment capacity to serve up to 3,000 ESFCs in Sunterra. On May 10, 2021, the Wholesale Agreement was assigned by the Original Developer to the Regional District and amended to provide for water supply and wastewater treatment capacity to serve up to 6,968 ESFCs in the Service Area. On August 18, 2022, a second amendment of the Wholesale Agreement was entered into by the parties.

Under the terms of the Wholesale Agreement, Quadvest is responsible for financing and constructing the water supply and wastewater treatment plants (the "Plant Facilities") to provide water and wastewater service to the Participants via the Regional District. The Regional District and the Participants are responsible for financing and constructing the facilities to deliver water and wastewater service to customers within the Service Area. In exchange for constructing and operating the Plant Facilities, Quadvest has received or will receive the following:

- a) Initial Payment – the Original Developer made an initial payment of \$500,000 to Quadvest. Such payment will offset the final Capacity Payments (defined below).
- b) Capacity Payments – Quadvest will receive \$1,150 per platted lot (the "Capacity Payments"). The Capacity Payments are due the earlier of:
 - a. Issuance of Regional District bond proceeds for such Capacity Payments; or
 - b. Thirty-six (36) months following the recording of the plat for each section.

Quadvest will expand the systems per the Wholesale Agreement for Water and Wastewater Services between Harris-Waller Counties Municipal Utility District No. 4. Quadvest will initiate the engineering and financial planning of the Quadvest Wastewater System or Quadvest Water System when the system reaches 75% of permitted capacity. Quadvest will initiate construction of the expansion of the system when it reaches 90% of the permitted capacity.

Source of Water Supply and Wastewater Treatment

The Participants obtain water from the Regional District which obtains water from Quadvest, which holds Certificate of Convenience and Necessity No. 11612 for water according to the Wholesale Agreement.

Quadvest currently provides water supply to the Regional District from Water Plant No. 1, which is operated and maintained by Quadvest. Water Plant No. 1 consists its two (2) water wells (approximately 745-gpm of combined capacity); two (2) 142,000-gallon ground storage tanks; two (2) hydro-pneumatic tanks (one 5,000-gal & one 15,000-gal); and four (4) 1,000-gpm booster pumps. Water Plant No. 1 has the capacity to serve a total of 1,000 ESFCs in the Service Area.

Quadvest has constructed Water Plant No. 2 to provide additional service to the Regional District. Water Plant No. 2 consists of one (1) water well (approximately 600-gpm of capacity); one (1) 352,500-gallon ground storage tank; one (1) 15,000-gallon hydro-pneumatic tank; and three (3) 1,200-gpm booster pumps. Water Plant No. 2 has the capacity to serve a total of 1,000 ESFCs in the Service Area. Currently, approximately 1,681 ESFCs are being served in the Service Area.

The Participants obtain wastewater capacity from the Regional District, which obtains wastewater treatment capacity from Quadvest through its Lakehouse Wastewater Treatment Facility. The TCEQ issued Quadvest a wastewater discharge permit for Lakehouse Wastewater Treatment Facility, dated August 12, 2022, authorizing the treatment and disposal from the facility (Texas Pollutant Discharge Elimination System Permit No. WQ0015101001), which expires on August 12, 2027. The Lakehouse Wastewater Treatment Facility has the capacity to serve 1,000 ESFCs in the Service Area.

Quadvest is currently operating in Phase II of the permit. In Phase II, the final effluent average daily flow is limited to 250,000 gpd, with a maximum peak flow of 347 gpm during any two-hour period (2-hour peak). Currently, the wastewater treatment plant is receiving an average of 174 gpd/ESFC. The total number of connections able to be served at the current flow rate is 1,437 ESFCs.

Quadvest is currently constructing the Sunterra Wastewater Treatment Plant Phase I which will have an average daily flow of 500,000 gpd. The TCEQ issued Quadvest a wastewater discharge permit for the Sunterra Wastewater Treatment Plant, dated May 20, 2022, authorizing the treatment and disposal from the facility (Texas Pollutant Discharge Elimination System Permit No. WQ0016041001), which expires on May 20, 2027. Construction of the Sunterra Wastewater Treatment Plant is projected to be complete in March of 2023. Upon completion, the wastewater facilities will have the total capacity 750,000 gpd (capable of serving 3,000 ESFCs at 250 gpd/ESFC).

Storm Drainage

The Service Area is located within the Cane Island Branch and Snake Creek watersheds. The Service Area contains storm water detention basins that are designed in accordance with the Brookshire-Katy Drainage District and the City's standards. The basin systems have two separate outfall locations that discharge into Cane Island Branch and Snake Creek.

Prior to development, the land contained within the Service Area's boundary naturally drained from northwest to southeast to the Cane Island Branch and the Clay Road roadside ditch. Cane Island Branch flows southerly and eventually the storm water enters Buffalo Bayou. For the land within the Service Area, curb and gutter streets with underground storm sewers were constructed with Sunterra Sections 1-14, 16-19, 21, 26, 27, 33-41, 46, 49, and 50, Sunterra Shores Section 1, Sunterra Shores Section 2, Crystal Vista Drive, Bartlett Road projects, Sunterra Drainage Pipes and Outfalls, and Sunterra Phase 1 Detention and Mass Grading. All undeveloped land drains naturally to boundary swales and future detention areas that flow to Cane Island Branch. Storm water is conveyed through the storm sewers, into the detention system, then into Cane Island Branch, and from Cane Island Branch, the storm water enters Buffalo Bayou.

100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency ("FEMA") has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the "100-year flood plain," is depicted on these maps. The 100-year flood plain as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the Engineer, approximately 562 acres within the Service Area lie within the 100-year floodplain.

A Letter of Map Revision for fill has been submitted to FEMA for Sunterra, Sections 10, 12, 13, 14, 16, 17, 18, 19, 21, 22, 24, 25, 26, 27, 29, 30, 31, 49, and 50 within the Service Area. In the future, there will be additional

Letter of Map Revisions based on Fill submitted to FEMA for approval to remove areas of the Service Area with developable land that is currently within the official floodplain. Additionally, a formal Letter of Map Revision has been submitted to FEMA to officially update the maps once the fill for the development is in place. Full approval is anticipated for December 2023.

In 2018, the National Weather Service 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.

LEGAL MATTERS

Legal Opinions

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the Regional District under the Constitution and laws of Texas, payable from Contract Payments, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect and to the effect that, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals; however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations for the purpose of determining the alternative minimum tax imposed on corporations.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for information under the subheadings "Book-Entry-Only System," "Use and Distribution of Bond Proceeds"), "THE PARTICIPANTS," "REGIONAL DISTRICT CONTRACT," "TAXING PROCEDURES," "THE REGIONAL DISTRICT FACILITIES - Wholesale Agreement for Water and Wastewater Service," "LEGAL MATTERS" (as it relates to the opinion of Bond Counsel), "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except for information under the subheading "Compliance with Prior Undertakings") solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law, the provisions of the documents referred to therein and conforms to the provisions of the Bond Resolution approving the Bonds. Bond Counsel has not, however, independently verified any of the factual information contained herein nor has it conducted an investigation of the affairs of the Regional District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

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

No-Litigation Certificate

The Regional District will furnish the Initial Purchaser a certificate, executed by the Board President and the Board Secretary, and dated as of the date of delivery of the Bonds, that to their knowledge, no litigation is pending or threatened affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment

thereof, the organization or boundaries of the Regional District, or the title of the officers thereof to their respective offices.

No Material Adverse Change

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

TAX MATTERS

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals; however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in section 59(k) of the Code) for the purpose of determining the alternative minimum tax imposed on corporations.

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

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

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

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

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

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

In the event of the redemption, sale, or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of this Official Statement.)

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

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six (6)-month period ending on the date before the semiannual anniversary dates of the Bonds and ratably within each such six (6)-month period) and the accrued amount is added to an initial owner's basis for such Bond for purposes of determining the amount of gain or loss recognized by such owner upon redemption, sale, or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price plus the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

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

income tax purposes of interest accrued upon redemption, sale, or other disposition of such Bonds and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and redemption, sale, or other disposition of such Bonds.

NOT Qualified Tax-Exempt Obligations

The Bonds are not “qualified tax-exempt obligations” for financial institutions.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the Regional District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Regional 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 Regional District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information to the Municipal Securities Rulemaking Board (“MSRB”). The MSRB established the Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

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

The information to be updated with respect to the Regional District includes all quantitative financial information and operating data of the general type included under “REGIONAL DISTRICT DEBT,” (except under the subheading “Estimated Direct and Overlapping Debt Statement”), “TAX DATA,” “APPENDIX A – Certain Financial Information Regarding the Participants,” and “APPENDIX B – Financial Statements of the Participants.” The Regional District will update and provide this information within six (6) months after the end of each of the fiscal years ending in or after 2023. The Regional District will provide the updated information to EMMA.

The Regional District will provide the updated information to the MSRB through its EMMA system. The Regional 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 of the Securities Exchange Act (the “Rule”). The updated information will include audited financial statements if an audit is commissioned and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the Regional District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six (6) month period, and audited financial statements when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution, or such other accounting principles as the Regional District and the Participants may be required to employ from time to time pursuant to state law or regulation.

In addition, the Regional District has agreed to provide information with respect to Astro Sunterra, any person or entity to whom Astro Sunterra voluntarily assigns (except as collateral) the right to receive a payment out of the proceeds from the sale of the bonds of the Regional District, and each other person or entity, if any, to whom the Regional District voluntarily makes or agrees or has agreed to make a payment out of such proceeds. The Regional District will be obligated to provide information concerning Astro Sunterra and any such other person or entity only if and so long as (1) such persons own more than 20% of the taxable property within the Service Area by value, as reflected by the most recently certified tax rolls (and without effect to special valuation provisions), (2) such persons have made tax or other payments to the Regional District which were used or available to pay more than 20% of the Regional District’s debt service requirements in the applicable fiscal year, or (3) at the end of such fiscal year such persons are obligated to the Regional District to provide or pay for Regional District facilities or debt in an amount which exceeds 20% of the amount of the Regional District’s bonds then outstanding. The information to be updated with respect to Astro Sunterra includes the information included under “TAX DATA – Principal Taxpayers.”

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

Event Notices

The Regional 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 10 business days after the occurrence of an event. The Regional 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 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 Regional District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the Regional District or other obligated person or the sale of all or substantially all of the assets of the Regional District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the Regional District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Regional District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Regional District or other obligated person, any of which reflect financial difficulties. The terms “obligated person” and “financial obligations” when used in this paragraph shall have the meanings ascribed to them 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 Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the Regional District will provide timely notice of any failure by the Regional District to provide information, data, or financial statements in accordance with its agreement discussed under “Annual Reports.”

Availability of Information from EMMA

The Regional District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The Regional District has agreed to update information and to provide notices of material events only as described above. The Regional District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results, operations, conditions, or prospects or to update any information that is provided, except as described above. The Regional 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 Regional District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although registered owners and beneficial owners of the Bonds may seek a writ of mandamus to compel the Regional District to comply with its agreement.

The Regional District may amend its continuing disclosure agreement from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Regional District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the Regional District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests

of the holders and beneficial owners of the Bonds. The Regional District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the initial offering. If the Regional District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement discussed under “CONTINUING DISCLOSURE OF INFORMATION – Annual Reports,” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with the continuing disclosure undertakings in accordance with the Rule.

OFFICIAL STATEMENT

General

The information contained herein has been obtained primarily from the Regional District’s records, the Regional District Engineer, the Developers, the Tax Assessor/Collector, and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. All of the summaries of the statutes, resolutions, orders, contracts, audits, and engineering and other related reports set forth herein are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The Regional District’s financial statements and the financial statements for MUD 5 and MUD 37, were audited by McGrath & Co., PLLC and are attached hereto under “APPENDIX B – Financial Statements of the Participants.” McGrath & Co., PLLC has consented to the publication of such financial statements herein. The financial statements of MUD 569 and MUD 35 as of May 31, 2022, and for the period from inception (June 10, 2019) to May 31, 2022, included in this offering document, have been audited by FORVIS, LLP, independent auditors, as stated in their report appearing herein. See “APPENDIX B – Financial Statements of the Participants.”

Experts

The information contained in the Official Statement relating to engineering and to the description of Regional District Facilities, and, in particular, that engineering information included under “THE REGIONAL DISTRICT – Status of Development Within the Service Area” and “THE REGIONAL DISTRICT FACILITIES,” has been provided by the Regional District Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained herein relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations included under “TAX DATA” and “REGIONAL DISTRICT DEBT” was provided by the Tax Assessor/Collector and the Appraisal District. Such information has been included herein in reliance upon the Tax Assessor/Collector’s authority as an expert in the field of tax collection and the Appraisal District’s authority as an expert in the field of tax assessing.

Certification as to Official Statement

The Regional District, acting by and through its Board in its official capacity and in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements, and descriptions pertaining to the Regional 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 light of the circumstances under which they were made, not misleading. The information, descriptions, and statements concerning entities other than the Regional District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the Regional District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

Updating of Official Statement

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

CONCLUDING STATEMENT

The information set forth herein has been obtained from the Regional District's records, audited financial statements, and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents, and resolutions contained herein are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Harris-Waller Counties Municipal Utility District No. 4 as of the date shown on the cover page hereof.

/s/ Erica Tabrizi
Vice President, Board of Directors
Harris-Waller Counties Municipal Utility District No. 4

ATTEST:

/s/ Ruth Delaunay
Secretary, Board of Directors
Harris-Waller Counties Municipal Utility District No. 4

APPENDIX A

Certain Financial Information Regarding the Participants

HARRIS-WALLER COUNTIES MUNICIPAL UTILITY DISTRICT NO. 4

(IN ITS CAPACITY AS A PARTICIPANT)

Voter Authorized Unlimited Tax Water, Sewer, and Drainage Bonds	\$	27,610,000
Voter Authorized Unlimited Tax Road Bonds.....	\$	28,545,000
Voter Authorized Unlimited Tax Park Bonds.....	\$	23,285,000
Total Principal Amount of Unlimited Tax Bonds Issued.....	\$	0
Debt Service Tax Limitation (per \$100 of Assessed Valuation)		Unlimited
Maintenance and Operations Tax Limitation (per \$100 of Assessed Valuation)		\$ 1.500
Maintenance and Operations Tax for Road Facilities Limitation (per \$100 of Assessed Valuation)		\$ 0.250
Contract Tax Limitation.....		Unlimited
Gross Outstanding Direct Debt.....	\$	0
2022 Gross Certified Assessed Valuation	\$	5,700,706
2023 Gross Preliminary Assessed Valuation.....	\$	5,370,027
Gross Assessed Valuation as a Percentage of the:		
2022 Gross Certified Assessed Valuation of the Participants		4.47 %
2023 Gross Preliminary Assessed Valuation of the Participants		1.05 %
Average Annual Debt Service Requirement (2023–2049):	\$	2,483,112
Pro Rata Share Based on the 2022 Gross Certified Assessed Valuation	\$	111,044
Pro Rata Share Based on the 2023 Gross Preliminary Assessed Valuation	\$	26,145
Maximum Annual Debt Service Requirement (2025):	\$	2,649,081
Pro Rata Share Based on the 2022 Gross Certified Assessed Valuation	\$	118,466
Pro Rata Share Based on the 2023 Gross Preliminary Assessed Valuation	\$	27,893
Tax Rate Required to Pay Pro Rata Share Based Upon		
2022 Certified Gross Assessed Valuation at 95% Tax Collections		
Average Annual Debt Service Requirement.....	\$	2.06
Maximum Annual Debt Service Requirement.....	\$	2.19
Tax Rate Required to Pay Pro Rata Share Based Upon		
2023 Gross Preliminary Assessed Valuation, at 95% Tax Collections		
Average Annual Debt Service Requirement.....	\$	0.52
Maximum Annual Debt Service Requirement.....	\$	0.55
Status of Development as of June 1, 2023 (a):		
Approximate Total Developed Acreage.....		140 (a)
Single-Family Homes.....		0
Total Developed Lots		0

(a) No lands in MUD 4 have or will be developed for single-family residential properties. Lands in MUD 4 are primarily dedicated to major thoroughfares, detention ponds, and commercial parcels. All commercial parcels have been developed in that utilities have been constructed to service the parcels, however no commercial improvements have been constructed to date.

Principal Taxpayers

The following represents the principal taxpayers on MUD 4's 2022 tax roll, as certified by the Appraisal District.

Taxpayer	Type of Property	Gross Certified Assessed Valuation 2022 Tax Roll
Astro Sunterra LP	Land	\$ 3,927,680
KA Great Minds West LLC	Land	1,401,540
Sunterra Market LLC	Land	206,100
Hilcorp Energy Co	Personal	146,931
Hilcorp Energy 1 LP	Personal	6,787
Director Lot	Land	1,350
Director Lot	Land	1,350
Director Lot	Land	1,350
Director Lot	Land	1,350
Director Lot	Land	1,350
Total		<u>\$ 5,695,788</u>
Percent of Tax Roll (a)		99.91%

(a) Based on MUD 4's total taxable assessed valuation as of January 1, 2022.

Historical Tax Collections

The following represents the historical tax collections for MUD 4.

Tax Year	Assessed Valuation	Tax Rate (a)	Adjusted Levy	Collections Current Year	Current Year Ended 09/30	Collections 5/31/2023
2022	\$5,700,396	\$1.50	\$85,506	99.99%	2023	99.99%

(a) Total tax rate per \$100 of assessed valuation for each respective tax year.

Tax Rate Distribution

The following represents the components of the tax rate for MUD 4 for the 2022 tax year.

	2022
Debt Service	\$0.0000
Contract Tax	\$0.0000
Maintenance and Operations	<u>\$1.5000</u>
	<u>\$1.5000</u>

HARRIS-WALLER COUNTIES MUNICIPAL UTILITY DISTRICT NO. 5

Voter Authorized Unlimited Tax Water, Sewer, and Drainage Bonds	\$	134,830,000
Voter Authorized Unlimited Tax Road Bonds.....	\$	127,245,000
Voter Authorized Unlimited Tax Park Bonds.....	\$	49,780,000
Total Principal Amount of Unlimited Tax Bonds Issued.....	\$	21,565,000 (a)
Debt Service Tax Limitation (per \$100 of Assessed Valuation)		Unlimited
Maintenance and Operations Tax Limitation (per \$100 of Assessed Valuation)		\$ 1.500
Maintenance and Operations Tax for Road Facilities Limitation (per \$100 of Assessed Valuation)		\$ 0.250
Contract Tax Limitation.....		Unlimited
Gross Outstanding Direct Debt.....	\$	21,565,000 (a)
2022 Gross Certified Assessed Valuation.....	\$	64,323,851
2023 Gross Preliminary Assessed Valuation.....	\$	358,070,701
Gross Assessed Valuation as a Percentage of the:		
2022 Gross Certified Assessed Valuation of the Participants		50.46 %
2023 Gross Preliminary Assessed Valuation of the Participants		70.21 %
Average Annual Debt Service Requirement (2023–2049):	\$	2,483,112
Pro Rata Share Based on the 2022 Gross Certified Assessed Valuation	\$	1,252,962
Pro Rata Share Based on the 2023 Gross Preliminary Assessed Valuation	\$	1,743,367
Maximum Annual Debt Service Requirement (2025):	\$	2,649,081
Pro Rata Share Based on the 2022 Gross Certified Assessed Valuation	\$	1,336,708
Pro Rata Share Based on the 2023 Gross Preliminary Assessed Valuation	\$	1,859,892
Tax Rate Required to Pay Pro Rata Share Based Upon		
2022 Certified Gross Assessed Valuation at 95% Tax Collections		
Average Annual Debt Service Requirement.....	\$	2.06
Maximum Annual Debt Service Requirement.....	\$	2.19
Tax Rate Required to Pay Pro Rata Share Based Upon		
2023 Gross Preliminary Assessed Valuation at 95% Tax Collections		
Average Annual Debt Service Requirement.....	\$	0.52
Maximum Annual Debt Service Requirement.....	\$	0.55
<u>Status of Single-Family Development as of June 1, 2023:</u>		
Approximate Total Developed Acreage.....		456
Single-Family Homes.....		1,054 (c)
Total Developed Lots		1,643

(a) The outstanding debt of MUD 5 noted above includes the \$9,215,000 principal amount of bonds issued in 2022 plus \$12,350,000 principal amount of bonds that MUD 5 anticipates issuing in the third quarter of 2023.

(b) Includes approximately 208 homes under construction as of June 1, 2023.

Principal Taxpayers

The following represents the principal taxpayers on MUD 5's 2022 tax roll, as certified by the Appraisal District.

Taxpayer	Type of Property	Gross Certified Assessed Valuation 2022 Tax Roll
Shea Homes Houston LLC	Land & Improvements	\$ 5,499,130
Perry Homes LLC	Land & Improvements	5,035,256
Pulte Homes of Texas LP	Land & Improvements	4,923,570
Chesmar Homes LLC	Land & Improvements	4,586,490
Adams Homes Lone Star LLC	Land & Improvements	2,959,400
EHT of Texas LP	Land & Improvements	2,879,715
Highland Homes Houston LLC	Land & Improvements	2,398,970
Astro Sunterra LP	Land & Improvements	2,186,910
Ashton Houston Residential	Land & Improvements	2,152,780
Westin Homes and Properties	Land & Improvements	<u>2,055,000</u>
Total		\$ 34,677,221
Percent of Tax Roll (a)		53.91 %

(a) Based on MUD 5's total taxable assessed valuation as of January 1, 2022.

Historical Tax Collections

The following represents the historical tax collections for MUD 5.

Tax Year	Assessed Valuation	Tax Rate (a)	Adjusted Levy	Collections Current Year	Current Year Ended 09/30	Collections 5/31/2023
2021	\$10,453,146	\$1.50	\$156,797	100.00%	2022	100.00
2022	\$64,323,851	\$1.50	\$964,858	97.02	2023	97.02

(a) Total tax rate per \$100 of assessed valuation for each respective tax year.

The following represents the components of the tax rate for MUD 5 over the 2021-2022 tax years.

	2022	2021
Debt Service	\$0.2200	\$0.0000
Contract Tax	\$0.4100	\$0.0000
Maintenance and Operations	<u>\$0.8700</u>	<u>\$1.5000</u>
	\$1.5000	\$1.5000

WALLER COUNTY MUNICIPAL UTILITY DISTRICT NO. 37

Voter Authorized Unlimited Tax Water, Sewer, and Drainage Bonds	\$	122,760,000
Voter Authorized Unlimited Tax Road Bonds.....	\$	117,145,000
Voter Authorized Unlimited Tax Park Bonds.....	\$	40,545,000
Total Principal Amount of Unlimited Tax Bonds Issued.....	\$	4,195,000 (a)
Debt Service Tax Limitation (per \$100 of Assessed Valuation)		Unlimited
Maintenance and Operations Tax Limitation (per \$100 of Assessed Valuation)		\$ 1.500
Maintenance and Operations Tax for Road Facilities Limitation (per \$100 of Assessed Valuation)		\$ 0.250
Contract Tax Limitation.....		Unlimited
Gross Outstanding Direct Debt.....	\$	4,195,000 (a)
2022 Gross Certified Assessed Valuation.....	\$	18,607,952
2023 Gross Preliminary Assessed Valuation.....	\$	103,987,495
Gross Assessed Valuation as a Percentage of the:		
2022 Gross Certified Assessed Valuation of the Participants		14.60 %
2023 Gross Preliminary Assessed Valuation of the Participants		20.39 %
Average Annual Debt Service Requirement (2023–2049):	\$	2,483,112
Pro Rata Share Based on the 2022 Gross Certified Assessed Valuation	\$	362,464
Pro Rata Share Based on the 2023 Gross Preliminary Assessed Valuation	\$	506,292
Maximum Annual Debt Service Requirement (2025):	\$	2,649,081
Pro Rata Share Based on the 2022 Gross Certified Assessed Valuation	\$	386,690
Pro Rata Share Based on the 2023 Gross Preliminary Assessed Valuation	\$	540,132
Tax Rate Required to Pay Pro Rata Share Based Upon		
2022 Certified Gross Assessed Valuation at 95% Tax Collections		
Average Annual Debt Service Requirement.....	\$	2.06
Maximum Annual Debt Service Requirement.....	\$	2.19
Tax Rate Required to Pay Pro Rata Share Based Upon		
2023 Gross Preliminary Assessed Valuation at 95% Tax Collections		
Average Annual Debt Service Requirement.....	\$	0.52
Maximum Annual Debt Service Requirement.....	\$	0.55
<u>Status of Single-Family Development as of June 1, 2023:</u>		
Approximate Total Developed Acreage.....		363
Single-Family Homes.....		338 (b)
Total Developed Lots		1,199

(a) Includes \$4,195,000 principal amount of bonds that MUD 37 anticipates issuing in the third quarter of 2023.

(b) Includes approximately 206 homes under construction as of June 1, 2023.

Principal Taxpayers

The following represents the principal taxpayers on MUD 37's 2022 tax roll, as certified by the Appraisal District.

Taxpayer	Type of Property	Gross Certified Assessed Valuation 2022 Tax Roll
Astro Sunterra LP	Land	\$ 13,133,560
BC Sunterra LLC	Land	1,901,360
KB Lone Star LP	Land	1,871,120
HMH Sunterra Land LLC	Land	1,438,420
Hilcorp Energy Co	Personal	233,723
Hilcorp Energy 1 LP	Personal	10,264
JR Evergreen LLC	Personal	1,723
Directors Lot	Land	1,500
Directors Lot	Land	1,500
Directors Lot	Land	1,500
Total		\$ 18,594,670
Percent of Tax Roll		99.93 %

Historical Tax Collections

The following represents the historical tax collections for MUD 37.

Tax Year	Assessed Valuation	Tax Rate (a)	Adjusted Levy	Collections Current Year	Current Year Ended 09/30	Collections 5/31/2023
2021	\$8,106,427	\$1.50	\$121,596	100.00%	2022	100.00%
2022	18,607,952	\$1.50	\$279,160	100.00%	2023	100.00%

(a) Total tax rate per \$100 of assessed valuation for each respective tax year.

Tax Rate Distribution

The following represents the components of the tax rate for MUD 37 over the 2021-2022 tax years.

	2022	2021
Debt Service	\$0.0000	\$0.0000
Contract Tax	\$0.0000	\$0.0000
Maintenance and Operations	<u>\$1.5000</u>	<u>\$1.5000</u>
	\$1.5000	\$1.5000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 569

Voter Authorized Unlimited Tax Water, Sewer, and Drainage Bonds	\$	241,500,000
Voter Authorized Unlimited Tax Road Bonds.....	\$	161,100,000
Voter Authorized Unlimited Tax Park Bonds.....	\$	64,600,000
Total Principal Amount of Unlimited Tax Bonds Issued.....	\$	0
Debt Service Tax Limitation (per \$100 of Assessed Valuation)		Unlimited
Maintenance and Operations Tax Limitation (per \$100 of Assessed Valuation)		\$ 1.500
Maintenance and Operations Tax for Road Facilities Limitation (per \$100 of Assessed Valuation)		\$ 0.250
Contract Tax Limitation.....		Unlimited
Gross Outstanding Direct Debt.....	\$	0
2022 Gross Certified Assessed Valuation.....	\$	4,546,687
2023 Gross Preliminary Assessed Valuation.....	\$	10,719,503
Gross Assessed Valuation as a Percentage of the:		
2022 Gross Certified Assessed Valuation of the Participants		3.57 %
2023 Gross Preliminary Assessed Valuation of the Participants		2.10 %
Average Annual Debt Service Requirement (2023–2049):	\$	2,483,112
Pro Rata Share Based on the 2022 Gross Certified Assessed Valuation	\$	88,565
Pro Rata Share Based on the 2023 Gross Preliminary Assessed Valuation	\$	52,191
Maximum Annual Debt Service Requirement (2025):	\$	2,649,081
Pro Rata Share Based on the 2022 Gross Certified Assessed Valuation	\$	94,484
Pro Rata Share Based on the 2023 Gross Preliminary Assessed Valuation	\$	55,679
Tax Rate Required to Pay Pro Rata Share Based Upon		
2022 Certified Gross Assessed Valuation at 95% Tax Collections		
Average Annual Debt Service Requirement.....	\$	2.06
Maximum Annual Debt Service Requirement.....	\$	2.19
Tax Rate Required to Pay Pro Rata Share Based Upon		
2023 Gross Preliminary Assessed Valuation at 95% Tax Collections		
Average Annual Debt Service Requirement.....	\$	0.52
Maximum Annual Debt Service Requirement.....	\$	0.55
<u>Status of Single-Family Development as of June 1, 2023:</u>		
Approximate Total Developed Acreage.....		226
Single-Family Homes.....		72 (a)
Total Developed Lots		943

(a) Includes approximately 60 homes under construction as of June 1, 2023.

Principal Taxpayers

The following represents the principal taxpayers on MUD 569's 2022 tax roll, as certified by the Appraisal District.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>Gross Certified Assessed Valuation 2022 Tax Roll</u>
Astro Sunterra LP	Land	\$ 4,546,687
Total		\$ 4,546,687
Percent of Tax Roll		100.00 %

Historical Tax Collections

The following represents the historical tax collections for MUD 569.

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate (a)</u>	<u>Adjusted Levy</u>	<u>Collections Current Year</u>	<u>Current Year Ended 09/30</u>	<u>Collections 5/31/2023</u>
2022	\$4,546,687	\$1.50	\$68,947	100.00%	2023	100.00%

(a) Total tax rate per \$100 of assessed valuation for each respective tax year.

Tax Rate Distribution

The following represents the components of the tax rate for MUD 569 for the 2022 tax year.

	<u>2022</u>
Debt Service	\$0.0000
Contract Tax	\$0.0000
Maintenance and Operations	<u>\$1.5000</u>
	\$1.5000

WALLER COUNTY MUNICIPAL UTILITY DISTRICT NO. 35

Voter Authorized Unlimited Tax Water, Sewer, and Drainage Bonds	\$	290,905,000
Voter Authorized Unlimited Tax Road Bonds.....	\$	131,600,000
Voter Authorized Unlimited Tax Park Bonds.....	\$	64,650,000
Total Principal Amount of Unlimited Tax Bonds Issued.....	\$	0
Debt Service Tax Limitation (per \$100 of Assessed Valuation)		Unlimited
Maintenance and Operations Tax Limitation (per \$100 of Assessed Valuation)		\$ 1.500
Maintenance and Operations Tax for Road Facilities Limitation (per \$100 of Assessed Valuation)		\$ 0.250
Contract Tax Limitation.....		Unlimited
Gross Outstanding Direct Debt.....	\$	0
2022 Gross Certified Assessed Valuation.....	\$	34,297,448
2023 Gross Preliminary Assessed Valuation.....	\$	31,859,527
Gross Assessed Valuation as a Percentage of the:		
2022 Gross Certified Assessed Valuation of the Participants		26.90 %
2023 Gross Preliminary Assessed Valuation of the Participants		6.25 %
Average Annual Debt Service Requirement (2023–2049):	\$	2,483,112
Pro Rata Share Based on the 2022 Gross Certified Assessed Valuation	\$	668,079
Pro Rata Share Based on the 2023 Gross Preliminary Assessed Valuation	\$	155,117
Maximum Annual Debt Service Requirement (2025):	\$	2,649,081
Pro Rata Share Based on the 2022 Gross Certified Assessed Valuation	\$	712,732
Pro Rata Share Based on the 2023 Gross Preliminary Assessed Valuation	\$	165,485
Tax Rate Required to Pay Pro Rata Share Based Upon		
2022 Certified Gross Assessed Valuation at 95% Tax Collections		
Average Annual Debt Service Requirement.....	\$	2.06
Maximum Annual Debt Service Requirement.....	\$	2.19
Tax Rate Required to Pay Pro Rata Share Based Upon		
2023 Gross Preliminary Assessed Valuation at 95% Tax Collections		
Average Annual Debt Service Requirement.....	\$	0.52
Maximum Annual Debt Service Requirement.....	\$	0.55
<u>Status of Single-Family Development as of June 1, 2023:</u>		
Approximate Total Developed Acreage.....		82
Single-Family Homes.....		104 (a)
Total Developed Lots		397

(a) Includes approximately 104 homes under construction as of June 1, 2023.

Principal Taxpayers

The following represents the principal taxpayers on MUD 35's 2022 tax roll, as certified by the Appraisal District.

Taxpayer	Type of Property	Gross Certified Assessed Valuation 2022 Tax Roll
David Wayne Freeman	Land	\$ 18,646,900 (a)
Astro Sunterra LP	Land	10,637,678
KB Home Lone Star LP	Land	1,582,320
MH Sunterra Holdings LLC	Land	508,170
T-Mobile West Corporation	Personal	49,650
Spectrasite Inc	Personal	15,470
Director Lot	Land	1,500
Director Lot	Land	1,500
Director Lot	Land	1,500
Director Lot	Land	1,500
Total		<u>\$ 31,446,188</u>
Percent of Tax Roll		91.67%

(a) Represents the value of land that is either under contract to purchase by Astro Sunterra LP or that has been conveyed to Astro Sunterra LP subsequent to the date of property ownership as shown on the above listing of top taxpayers.

Historical Tax Collections

Tax Year	Assessed Valuation	Tax Rate (a)	Adjusted Levy	Collections Current Year	Current Year Ended 09/30	Collections 6/30/2023
2022	\$12,010,068	\$1.50	\$222,853	99.97%	2023	99.97%

(a) Total tax rate per \$100 of assessed valuation for each respective tax year.

Tax Rate Distribution

The following represents the components of the tax rate for MUD 35 for the 2022 tax year.

	<u>2022</u>
Debt Service	\$0.0000
Contract Tax	\$0.0000
Maintenance and Operations	<u>\$1.5000</u>
	\$1.5000

APPENDIX B

Financial Statements of the Participants

**HARRIS – WALLER COUNTIES
MUNICIPAL UTILITY DISTRICT NO. 4
HARRIS AND WALLER COUNTIES, TEXAS
FINANCIAL REPORT
April 30, 2022**

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McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's Report

Board of Directors

Harris - Waller Counties Municipal Utility District No. 4

Harris and Waller Counties, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris - Waller Counties Municipal Utility District No. 4 (the "District"), as of and for the year ended April 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris - Waller Counties Municipal Utility District No. 4, as of April 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Board of Directors
Harris - Waller Counties Municipal Utility District No. 4
Harris and Waller Counties, Texas***

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied

***Board of Directors
Harris - Waller Counties Municipal Utility District No. 4
Harris and Waller Counties, Texas***

certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

WCG & Co, PC

Houston, Texas
August 18, 2022

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Management's Discussion and Analysis

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***Harris - Waller Counties Municipal Utility District No. 4
Management's Discussion and Analysis
April 30, 2022***

Using this Annual Report

Within this section of the financial report of Harris - Waller Counties Municipal Utility District No. 4 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended April 30, 2022. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

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The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. 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, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at April 30, 2022, was negative \$5,540,889. This amount is negative primarily because the District incurs debt to construct public roads which it conveys to the Waller County. A comparative summary of the District's overall financial position, as of April 30, 2022 and 2021, is as follows:

	2022	2021
Current and other assets	\$ 155,190	\$ 14,840
Capital assets	13,788,320	490,000
Total assets	<u>13,943,510</u>	<u>504,840</u>
Current liabilities	8,347,750	168,662
Long-term liabilities	11,136,649	550,000
Total liabilities	<u>19,484,399</u>	<u>718,662</u>
Net position		
Net investment in capital assets	(667,965)	(10,000)
Unrestricted	(4,872,924)	(203,822)
Total net position	<u>\$ (5,540,889)</u>	<u>\$ (213,822)</u>

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The total net position of the District decreased during the current fiscal year by \$5,327,067. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2022</u>	<u>2021</u>
Revenues		
Investment earnings	<u>\$ 223,370</u>	<u>\$ 8</u>
Expenses		
Operating and administrative	855,309	203,830
Debt interest and fees	40,235	
Debt issuance costs	158,300	
Amortization	124,127	10,000
Total expenses	<u>1,177,971</u>	<u>213,830</u>
Change in net position before other item	(954,601)	(213,822)
Other item		
Transfers to other governments	<u>(4,372,466)</u>	
Change in net position	(5,327,067)	(213,822)
Net position, beginning of year	<u>(213,822)</u>	
Net position, end of year	<u><u>\$ (5,540,889)</u></u>	<u><u>\$ (213,822)</u></u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of April 30, 2022, was negative \$237,325, which consists of negative \$284,147 in the General Fund, \$30,241 in the Capital Projects Fund, and \$16,581 in the Special Revenue Fund.

General Fund

A comparative summary of the General Fund's financial position as of April 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Total assets	<u><u>\$ 8,819</u></u>	<u><u>\$ 14,840</u></u>
Total liabilities	\$ 292,966	\$ 168,662
Total fund balance	<u>(284,147)</u>	<u>(153,822)</u>
Total liabilities and fund balance	<u><u>\$ 8,819</u></u>	<u><u>\$ 14,840</u></u>

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A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	<u>2022</u>	<u>2021</u>
Total revenues	\$ -	\$ 8
Total expenditures	<u>(180,325)</u>	<u>(203,830)</u>
Revenues under expenditures	(180,325)	(203,822)
Other changes in fund balance	<u>50,000</u>	<u>50,000</u>
Net change in fund balance	<u><u>\$ (130,325)</u></u>	<u><u>\$ (153,822)</u></u>

The District relies on advances from its developer to supplement revenue shortfalls. Fund balance in the General Fund is the result of timing differences between developer advances and expenditures for which those advances are intended to fund.

Capital Projects Fund

A Capital Projects Fund was established to account for the expenditure of proceeds from the issuance of the District's Series 2022 Bond Anticipation Note. A summary of the financial position of the Capital Projects Fund as of April 30, 2022 is as follows:

Total assets	<u><u>\$ 30,241</u></u>
Total fund balance	<u><u>\$ 30,241</u></u>

A summary of activities in the Capital Projects Fund for the current year is as follows:

Total revenues	\$ 329
Total expenditures	<u>(7,810,088)</u>
Revenues under expenditures	(7,809,759)
Other changes in fund balance	<u>7,840,000</u>
Net change in fund balance	<u><u>\$ 30,241</u></u>

The District's capital asset activity in the current year was financed with proceeds from the issuance of its Series 2022 Bond Anticipation Note.

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Management's Discussion and Analysis
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Special Revenue Fund

The Special Revenue Fund is used to account for the operations of the Master District. A comparative summary of the Special Revenue Fund's financial position as of April 30, 2022 is as follows:

Total assets	<u>\$ 116,130</u>
Total liabilities	\$ 99,549
Total fund balance	<u>16,581</u>
Total liabilities and fund balance	<u>\$ 116,130</u>

A comparative summary of activities for the Special Revenue Fund's current year is as follows:

Total revenues	\$ 223,041
Total expenditures	<u>(206,460)</u>
Revenues over expenditures	<u>\$ 16,581</u>

Revenues in the Special Revenue Fund primarily consist of charges to participants. The amount the District charges is based upon the cost of providing services. See Note 10 for additional information.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated expenditures and other financing sources.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$130,385 less than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

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Management's Discussion and Analysis
April 30, 2022*

Capital Assets

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Capital assets held by the District at April 30, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Capital assets not being depreciated		
Land and improvements	\$ 8,286,756	\$ -
Capital assets being depreciation/amortization		
Infrastructure	5,135,691	
Water and wastewater capacity	500,000	500,000
	<u>5,635,691</u>	<u>500,000</u>
Less accumulated depreciation/amortization		
Infrastructure	(114,127)	
Water and wastewater capacity	(20,000)	(10,000)
	<u>(134,127)</u>	<u>(10,000)</u>
Depreciable capital assets, net	<u>5,501,564</u>	<u>490,000</u>
Capital assets, net	<u>\$ 13,788,320</u>	<u>\$ 490,000</u>

Capital asset additions during the current year include the following:

- Barlett Road Segment 1 and 2 utilities
- Sunterra Phase 1 excavation and mass grading
- Sunterra Phase 1 pipes and outfalls
- Collector A and B Section 11 utilities
- Land acquisitions

Waller County assumes responsibility (after a one-year maintenance period) for road facilities constructed within the boundaries of the County. Accordingly, these facilities are not considered assets of the District. The estimated value of these assets is recorded as transfers to other governments upon completion of construction. This estimated cost is trued-up when the developer is reimbursed. For the year ended April 30, 2022, capital assets in the amount of \$4,372,466 have been recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 9.

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Management's Discussion and Analysis
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Long-Term Debt and Related Liabilities

As of April 30, 2022, the District owes approximately \$11,136,649 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 6, the District has an additional commitment in the amount of \$52,647,983 for projects under construction by the developers. As noted, the District will owe its developer for these projects upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is accrued when the developer is reimbursed.

As of April 30, 2022, the District, in its capacity as a Master District, had contract revenue bonds of \$610,227,000 authorized, but unissued for the purposes of regional water, sanitary sewer and drainage facilities and \$199,661,000 for road improvements.

As of April 30, 2022, the District, in its capacity as a participating district, had \$27,610,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$8,284,000 for the refunding of such bonds; \$23,285,000 for parks and recreational facilities and \$6,986,000 for the refunding of such bonds; and \$28,545,000 for road improvements and \$8,564,000 for the refunding of such bonds.

During the current year, the District issued a \$7,915,000 bond anticipation note (BAN) to provide short-term financing for developer reimbursements. The District intends to repay the BAN with proceeds from the issuance of long-term debt. See Note 5 for additional information.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District and providing services to customers. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2022 Actual</u>	<u>2023 Budget</u>
Total revenues	\$ -	\$ 293,510
Total expenditures	(180,325)	(216,000)
Revenues over/(under) expenditures	(180,325)	77,510
Other changes in fund balance	50,000	
Net change in fund balance	(130,325)	77,510
Beginning fund balance	(153,822)	(284,147)
Ending fund balance	<u>\$ (284,147)</u>	<u>\$ (206,637)</u>

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Basic Financial Statements

Harris - Waller Counties Municipal Utility District No. 4
Statement of Net Position and Governmental Funds Balance Sheet
April 30, 2022

	General Fund	Capital Projects Fund	Special Revenue Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 865	\$ -	\$ -	\$ 865	\$ -	\$ 865
Investments	7,954	30,241		38,195		38,195
Due from participants			116,130	116,130		116,130
Capital assets not being depreciated					8,286,756	8,286,756
Capital assets, net					5,501,564	5,501,564
Total Assets	<u>\$ 8,819</u>	<u>\$ 30,241</u>	<u>\$ 116,130</u>	<u>\$ 155,190</u>	<u>13,788,320</u>	<u>13,943,510</u>
Liabilities						
Accounts payable	\$ 292,966	\$ -	\$ 99,549	\$ 392,515		392,515
Accrued interest payable					40,235	40,235
Bond anticipation note payable					7,915,000	7,915,000
Due to developers					11,136,649	11,136,649
Total Liabilities	<u>292,966</u>	<u></u>	<u>99,549</u>	<u>392,515</u>	<u>19,091,884</u>	<u>19,484,399</u>
Fund Balance/Net Position						
Fund Balance						
Restricted		30,241		30,241	(30,241)	
Committed			16,581	16,581	(16,581)	
Unassigned	(284,147)			(284,147)	284,147	
Total Fund Balances	<u>(284,147)</u>	<u>30,241</u>	<u>16,581</u>	<u>(237,325)</u>	<u>237,325</u>	
Total Liabilities and Fund Balances	<u>\$ 8,819</u>	<u>\$ 30,241</u>	<u>\$ 116,130</u>	<u>\$ 155,190</u>		
Net Position						
Net investment in capital assets					(667,965)	(667,965)
Unrestricted					(4,872,924)	(4,872,924)
Total Net Position					<u>\$ (5,540,889)</u>	<u>\$ (5,540,889)</u>

See notes to basic financial statements.

Harris - Waller Counties Municipal Utility District No. 4
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances
For the Year Ended April 30, 2022

	General Fund	Capital Projects Fund	Special Revenue Fund	Total	Adjustments	Statement of Activities
Revenues						
Participant billings	\$ -	\$ -	\$ 223,041	\$ 223,041	\$ -	\$ 223,041
Investment earnings		329		329		329
Total Revenues		329	223,041	223,370		223,370
Expenditures/Expenses						
Operating and administrative						
Purchased services	684		112,339	113,023		113,023
Professional fees	156,841	468,524	27,058	652,423		652,423
Contracted services	6,680		7,320	14,000		14,000
Administrative	13,091		178	13,269		13,269
Other	3,029		59,565	62,594		62,594
Capital outlay		7,183,264		7,183,264	(7,183,264)	
Debt service						
Interest and fees					40,235	40,235
Debt issuance costs		158,300		158,300		158,300
Depreciation/amortization					124,127	124,127
Total Expenditures/Expenses	180,325	7,810,088	206,460	8,196,873	(7,018,902)	1,177,971
Revenues Over/(Under) Expenditures/Expenses	(180,325)	(7,809,759)	16,581	(7,973,503)	7,018,902	(954,601)
Other Financing Sources/(Uses)						
Proceeds from bond anticipation note		7,915,000		7,915,000	(7,915,000)	
Operating advances	50,000			50,000	(50,000)	
Repayment of developer advances		(75,000)		(75,000)	75,000	
Other Item						
Transfers to other governments					(4,372,466)	(4,372,466)
Net Change in Fund Balances	(130,325)	30,241	16,581	(83,503)	83,503	
Change in Net Position					(5,327,067)	(5,327,067)
Fund Balance/Net Position						
Beginning of the year	(153,822)	-	-	(153,822)	(60,000)	(213,822)
End of the year	\$ (284,147)	\$ 30,241	\$ 16,581	\$ (237,325)	\$ (5,303,564)	\$ (5,540,889)

See notes to basic financial statements.

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Harris - Waller Counties Municipal Utility District No. 4
Notes to Financial Statements
April 30, 2022

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris - Waller Counties Municipal Utility District No. 4 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created, and established pursuant to House Bill No. 4520, 86th Session of the Texas Legislature, Regular Session, codified as Chapter 8047, Texas Special District Local Law Code (the “Act”), effective May 3, 2019, and operates in accordance with Section 52, Article III, and Section 59, Article XVI, of the Texas Constitution, and the Texas Water Code, Chapters 49 and 54. On July 30, 2020, voters of the District approved a proposition dividing the District into three districts: the District, Harris - Waller Counties Municipal Utility District No. 5 (“MUD 5”) and Waller County Municipal Utility District No. 37 (“MUD 37”). The Board of Directors held its first meeting on July 30, 2020.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District’s water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District’s water, sewer and drainage facilities.
- The Special Revenue Fund is used to account for the operation and maintenance of the regional facilities. The principal source of revenue is from Master District service fees received from participating districts. Expenditures include costs associated with the daily operations of the regional facilities. See Note 10.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, interest earned on investments and income from District operations. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At April 30, 2022, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$50,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities, are depreciated (or amortized in the case of intangible assets) using the straight-line method as follows:

Assets	Useful Life
Infrastructure	20-45 years
Water and wastewater capacity	Remaining life of contract

The District’s detention facilities are considered improvements to land and are non-depreciable.

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District’s restricted fund balances consist of unspent bond anticipation note proceeds in the Capital Projects Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District’s committed fund balances in the Special Revenue Fund consist of amounts restricted for the operation of the regional facilities as discussed in Note 10.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned – deficit fund balance in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developers; the value of capital assets transferred to the Waller County and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Harris - Waller Counties Municipal Utility District No. 4
Notes to Financial Statements
April 30, 2022

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Fund Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds		\$	(237,325)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.			
Historical cost	\$	13,922,447	
Less accumulated depreciation/amortization		<u>(134,127)</u>	
Change due to capital assets			13,788,320
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:			
Bond anticipation note payable		(7,915,000)	
Interest payable on bonds		<u>(40,235)</u>	
Change due to long-term debt			(7,955,235)
Amounts due to the District's developer for prefunded construction, water and wastewater capacity, and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .			
			(11,136,649)
Total net position - governmental activities			<u><u>\$ (5,540,889)</u></u>

Harris - Waller Counties Municipal Utility District No. 4
Notes to Financial Statements
April 30, 2022

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance* to the *Statement of Activities*

Net change in fund balances - total governmental funds \$ (83,503)

Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	\$ 7,183,264	
Depreciation/amortization expense	(124,127)	
		7,059,137

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

Proceeds from bond anticipation note	(7,915,000)	
Interest payable on bonds	(40,235)	
		(7,955,235)

Amounts received from the District's developer for operating advances provide financial resources at the fund level, but are recorded as a liability in the *Statement of Net Position*. (50,000)

Amounts repaid to the District's developer for operating advances use financial resources at the fund level, but reduce the liability in the *Statement of Net Position*. 75,000

The District conveys public roads to the Waller County upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (4,372,466)

Change in net position of governmental activities		\$ (5,327,067)
---	--	----------------

Harris - Waller Counties Municipal Utility District No. 4
Notes to Financial Statements
April 30, 2022

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral. The District’s written investment policy establishes additional requirements for collateralization of deposits.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers’ acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District’s investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of April 30, 2022, the District’s investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexSTAR	General	\$ 7,954	AAAm	36 days
	Capital Projects	30,241		
Total		<u>\$ 38,195</u>		

Note 3 – Deposits and Investments

TexSTAR

The District participates in Texas Short Term Asset Reserve fund (TexSTAR) which is managed by Hilltop Securities, Inc., and J.P. Morgan Investment Management, Inc. Hilltop Securities provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

The District's investment in TexSTAR is reported at fair value because TexSTAR uses fair value to report investments. Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District's investment in TexSTAR is measured using published fair value per share (level 1 inputs).

Investments in TexSTAR may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Harris - Waller Counties Municipal Utility District No. 4
Notes to Financial Statements
April 30, 2022

Note 4 – Capital Assets

A summary of changes in capital assets, for the year ended April 30, 2022, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ -	\$ 8,286,756	\$ 8,286,756
Capital assets being depreciation/amortization			
Infrastructure		5,135,691	5,135,691
Water and wastewater capacity	500,000		500,000
	<u>500,000</u>	<u>5,135,691</u>	<u>5,635,691</u>
Less accumulated depreciation/amortization			
Infrastructure		(114,127)	(114,127)
Water and wastewater capacity	(10,000)	(10,000)	(20,000)
	<u>(10,000)</u>	<u>(124,127)</u>	<u>(134,127)</u>
Subtotal depreciable capital assets, net	<u>490,000</u>	<u>5,011,564</u>	<u>5,501,564</u>
Capital assets, net	<u>\$ 490,000</u>	<u>\$ 13,298,320</u>	<u>\$ 13,788,320</u>

Depreciation/amortization expense for the current year was \$124,127.

Note 5 – Bond Anticipation Note

The District uses a bond anticipation note (BAN) to provide short-term financing for reimbursements to its developers. Despite its short-term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long-term debt or another BAN. It is, however, recorded as a liability at the government-wide level.

On February 28, 2022, the District issued a \$7,915,000 BAN with an interest rate of 3.00%, which is due on February 27, 2023.

The effect of this transaction on the District’s short-term obligations are as follows:

Beginning balance	\$ -
Amounts borrowed	<u>7,915,000</u>
Ending balance	<u>\$ 7,915,000</u>

Harris - Waller Counties Municipal Utility District No. 4
Notes to Financial Statements
April 30, 2022

Note 6 – Due to Developers

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, and drainage facilities. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed.

The District’s developers have also advanced funds to the District for operating expenses.

Changes in the estimated amounts due to developers during the year are as follows:

Due to developers, beginning of year	\$ 550,000
Developer reimbursements	(7,183,264)
Developer funded construction and adjustments	17,794,913
Repayment of operating advances	(75,000)
Operating advances from developer	50,000
Due to developers, end of year	<u>\$ 11,136,649</u>

In addition, the District will owe the developers approximately \$52,647,983, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Sunterra Phase 1 excavation and mass grading	\$ 5,816,110	\$ 4,914,674	\$ 901,436
Sunterra Phase 1B detention and mass grading	5,436,964	4,405,535	1,031,429
Stockdick Road Segment 1 - utilities	1,805,679	1,691,316	114,363
Stockdick Road Segment 1 - paving	1,859,789	1,127,461	732,328
Sunterra Phase 2B mass grading	6,897,277	5,956,491	940,786
Clay Road paving	2,244,464	666,954	1,577,510
Sunterra Phase 3 pipeline removal and demolition	224,458	201,407	23,051
Sunterra Phase 3 North Pod 6 mass grading	3,823,367	174,825	3,648,542
Sunterra Phase 3 North Pod 5 mass grading	15,278,740	127,800	15,150,940
Sunterra Phase 3 south detention and mass grading	1,413,338	46,446	1,366,891
Sunterra Phase 1B detention and mass grading	2,831,594	2,551,469	280,125
Sunterra Shores Segment 4A utilities and paving	1,752,724	1,603,073	149,651
Sunterra Lift Station No. 1	1,160,598	206,705	953,893
Barlett Road - hardscape, landscape and irrigation	2,102,881	146,318	1,956,563
	<u>\$ 52,647,983</u>	<u>\$ 23,820,475</u>	<u>\$ 28,827,509</u>

Harris - Waller Counties Municipal Utility District No. 4
Notes to Financial Statements
April 30, 2022

Note 7 – Long-Term Debt

As of April 30, 2022, the District, in its capacity as a Master District, had contract revenue bonds of \$610,227,000 authorized, but unissued for the purposes of regional water, sanitary sewer and drainage facilities and \$199,661,000 for road improvements.

As of April 30, 2022, the District, in its capacity as a participating district, had \$27,610,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$8,284,000 for the refunding of such bonds; \$23,285,000 for parks and recreational facilities and \$6,986,000 for the refunding of such bonds; and \$28,545,000 for road improvements and \$8,564,000 for the refunding of such bonds.

Note 8 – Property Taxes

On November 3, 2020, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value and a road maintenance limited to \$0.25 per \$100 of assessed value. The District has not levied a maintenance tax or road maintenance tax.

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

Note 9 – Transfers to Other Governments

Waller County assumes responsibility for the maintenance of public roads constructed within the county limits. Accordingly, road facilities are considered to be capital assets of Waller County, not the District. The estimated cost of each road project is recorded as a transfer to other government upon completion of construction. This cost is trued-up when the developer is subsequently reimbursed. For the year ended April 30, 2022, the District recorded transfers to other governments in the amount of \$4,372,466 for road facilities constructed by a developer within the District.

Note 10 – Master District

The District, in its capacity as Master District, has entered into contracts (the "Contracts") with the District in its capacity as a participating district, MUD 5 and MUD 37 whereby the Master District agrees to provide or cause to be provided the regional water supply and distribution facilities, wastewater collection, treatment and disposal facilities, detention/drainage facilities, and road facilities to serve all districts located within the Master District's service area. Pursuant to the Contracts with each of the participating districts, and pursuant to the Contract between the District (in its capacity as participating district) and the District (in its capacity as Master District), the District, in addition to its role as Master District, has the same rights and duties as the other participant districts. As of April 30, 2022, the District has not incurred any costs under these Contracts.

Harris - Waller Counties Municipal Utility District No. 4
Notes to Financial Statements
April 30, 2022

Note 10 – Master District (continued)

The Master District has entered into a Wholesale Agreement for Water and Wastewater Service with Quadvest, under which Quadvest will provide wholesale water and wastewater supply to land within the Master District's service area. See Note 8 for additional information.

The Contracts authorize the establishment of an operating and maintenance reserve by the Master District equivalent to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. Prior to commencement of services, the Master District shall bill the participating districts to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually.

Upon commencement of services, the Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection multiplied by the number of equivalent single-family connections ("ESFCs") reserved to the District. The term of the Contracts is 40 years. As of April 30, 2022, the Master District billed \$223,041 to the participating districts for the operation and maintenance of the regional facilities.

As of April 30, 2022, the District, in its Master District capacity, is authorized to issue \$610,227,000 in contract revenue bonds for the purpose of acquiring and constructing water, sewer, and drainage facilities needed to provide services to all participating districts in the service area and \$199,661,000 for road facilities. The participating districts, including the District in its capacity as a participating district, shall contribute to the payment of debt service requirements based on its pro rata share of the total certified assessed valuation of all participating districts. As of April 30, 2022, the Master District has not issued any bonds.

Note 11 – Wholesale Agreement

On September 15, 2020, Katy 1039, Ltd. ("Katy 1039") and Quadvest, L.P. ("Quadvest") entered into a Wholesale Agreement for Water and Wastewater Service (the "Agreement") for the purchase of wholesale water and wastewater service necessary to serve 6,968 ESFCs within the District. On May 10, 2021, Katy 1039, the District and Quadvest entered into an Assignment and First Amendment to Wholesale Agreement for Water and Wastewater Service (the "Amended Agreement"). The District has assumed all rights and obligations of Katy 1039 pursuant to this Amended Agreement.

Quadvest is responsible for the meter installation and the design and construction of the interconnect facilities necessary to connect the District to Quadvest's water system. The wholesale water service charge is \$3.70 per 1,000 gallons of meter water flow. Quadvest is also responsible for the design and construction of the interconnect facilities necessary to connect the District to Quadvest's wastewater system. The wholesale sewer service charge is \$55 per ESFC.

The purchased price of the reserved water and wastewater capacity shall be based on \$575 per ESFC, representing one water ESFC and one wastewater ESFC per residential lot. Pursuant to the Agreement, the District's developer paid \$500,000 for the reserved water and wastewater capacity in the Quadvest's systems. The term of the Agreement is 50 years.

Harris - Waller Counties Municipal Utility District No. 4
Notes to Financial Statements
April 30, 2022

Note 12 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 13 – Economic Dependency

The District is dependent upon its developers for operating advances. The developers continue to own a substantial portion of the taxable property within the District. The developers' willingness to make future operating advances and/or to pay property taxes will directly affect the District's ability to meet its future obligations.

Required Supplementary Information

*Harris - Waller Counties Municipal Utility District No. 4
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended April 30, 2022*

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 33,000	\$ 33,000	\$ -	\$ (33,000)
Investment earnings	10	10		(10)
Total Revenues	<u>33,010</u>	<u>33,010</u>		<u>(33,010)</u>
Expenditures				
Operating and administrative				
Purchased services			684	(684)
Professional fees	143,000	151,000	156,841	(5,841)
Contracted services	8,200	8,200	6,680	1,520
Administrative	24,750	24,850	13,091	11,759
Other	1,500	1,500	3,029	(1,529)
Total Expenditures	<u>177,450</u>	<u>185,550</u>	<u>180,325</u>	<u>5,225</u>
Revenues Under Expenditures	(144,440)	(152,540)	(180,325)	(27,785)
Other Financing Sources				
Operating advances	145,000	152,600	50,000	(102,600)
Net Change in Fund Balance	560	60	(130,325)	(130,385)
Fund Balance				
Beginning of the year	(153,822)	(153,822)	(153,822)	
End of the year	<u>\$ (153,262)</u>	<u>\$ (153,762)</u>	<u>\$ (284,147)</u>	<u>\$ (130,385)</u>

Harris - Waller Counties Municipal Utility District No. 4
Notes to Required Supplementary Information
April 30, 2022

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated expenditures and other financing sources.

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Texas Supplementary Information

Harris - Waller Counties Municipal Utility District No. 4
TSI-1. Services and Rates
April 30, 2022

1. Services provided by the District During the Fiscal Year:

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate (Y / N)</u>	<u>Rate per 1,000 Gallons Over Minimum Usage</u>	<u>Usage Levels</u>
Water:	\$ 46.00	10,000	N	\$ 4.30	10,001 to no limit
Wastewater:	\$ 47.50		Y		

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 46.00 Wastewater \$ 47.50

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC'S</u>
Unmetered	_____	_____	x 1.0	_____
less than 3/4"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1.5"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water	_____	_____		_____
Total Wastewater	_____	_____	x 1.0	_____

See accompanying auditors' report.

Harris - Waller Counties Municipal Utility District No. 4
TSI-1. Services and Rates
April 30, 2022

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

Gallons pumped into system:	<u> N/A </u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
Gallons billed to customers:	<u> N/A </u>	<u> N/A </u>

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: _____

5. Location of District

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Harris and Waller Counties

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: _____

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

Entirely Partly Not at all

ETJs in which the District is located: City of Houston

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

See accompanying auditors' report.

*Harris - Waller Counties Municipal Utility District No. 4
 TSI-2 General Fund Expenditures
 For the Year Ended April 30, 2022*

Purchased services	<u>\$ 684</u>
Professional fees	
Legal	130,706
Audit	8,000
Engineering	18,135
	<u>156,841</u>
Contracted services	
Bookkeeping	<u>6,680</u>
Administrative	
Directors fees	7,200
Printing and office supplies	2,005
Insurance	3,019
Other	867
	<u>13,091</u>
Other	<u>3,029</u>
Total expenditures	<u><u>\$ 180,325</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	N/A	N/A
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Harris - Waller Counties Municipal Utility District No. 4
TSI-3. Investments
April 30, 2022

Fund	Interest Rate	Maturity Date	Balance at End of Year
General			
TexSTAR	Variable	N/A	\$ 7,954
Capital Projects			
TexSTAR	Variable	N/A	<u>30,241</u>
Total - All Funds			<u><u>\$ 38,195</u></u>

See accompanying auditors' report.

***Harris - Waller Counties Municipal Utility District No. 4
 TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
 For the Last Two Fiscal Years***

	Amounts		Percent of Fund Total Revenues	
	2022	2021	2022	2021
Revenues				
Investment earnings	\$ -	\$ 8	N/A	100%
Expenditures				
Operating and administrative				
Purchased services	684		N/A	
Professional fees	156,841	183,508	N/A	2293850%
Contracted services	6,680	6,400	N/A	80000%
Administrative	13,091	12,574	N/A	157175%
Other	3,029	1,348	N/A	16850%
Total Expenditures	180,325	203,830	N/A	2547875%
Revenues Under Expenditures	\$ (180,325)	\$ (203,822)	N/A	(2547775%)

See accompanying auditors' report.

***Harris - Waller Counties Municipal Utility District No. 4
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended April 30, 2022***

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
 District Business Telephone Number: (713) 860-6400
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): January 20, 2022
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Rhonda Patterson	11/20 - 05/24	\$ 1,500	\$ -	President
Erica Tabrizi	11/20 - 05/24	1,350		Vice President
Ruth Delaunay	11/20 - 05/24	1,800		Secretary
Sabrina Alaquinez	01/22 - 05/22	450		Assistant Vice President
Way Denkler	11/20 - 05/22	1,650		Assistant Secretary
Krystal Mutina	12/20 - 10/21	450		Former Director
Consultants				
Allen Boone Humphries Robinson LLP	2020		<u>Amounts Paid</u>	Attorney
<i>General legal fees</i>		\$ 255,223		
<i>Bond counsel</i>		79,150		
Municipal District Services	2020			Operator
Myrtle Cruz, Inc.	2020	13,942		Bookkeeper
Bob Leared Interests	2020			Tax Collector
Waller County Appraisal District	Legislation			Property Valuation
Harris County Appraisal District	Legislation			Property Valuation
Quiddity Engineering, LLC	2020	27,263		Engineer
Kimley-Horn & Associates, Inc.	2020			Landscape Architect
McGrath & Co., PLLC	2020	14,375		Auditor
R.W. Baird & Co., Inc.	2020	79,150		Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.
 See accompanying auditors' report.

**HARRIS – WALLER COUNTIES
MUNICIPAL UTILITY DISTRICT NO. 5**

HARRIS AND WALLER COUNTIES, TEXAS

FINANCIAL REPORT

April 30, 2022

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McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's Report

Board of Directors

Harris - Waller Counties Municipal Utility District No. 5

Harris and Waller Counties, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris - Waller Counties Municipal Utility District No. 5 (the "District"), as of and for the year ended April 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris - Waller Counties Municipal Utility District No. 5, as of April 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Board of Directors
Harris - Waller Counties Municipal Utility District No. 5
Harris and Waller Counties, Texas***

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied

*Board of Directors
Harris - Waller Counties Municipal Utility District No. 5
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certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The Texas Supplementary Information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.



Houston, Texas
August 18, 2022

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Management's Discussion and Analysis

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***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2022***

Using this Annual Report

Within this section of the financial report of Harris - Waller Counties Municipal Utility District No. 5 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended April 30, 2022. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2022***

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. 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, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at April 30, 2022, was negative \$5,396,760. This amount is negative primarily because the District incurs debt to construct public roads which it conveys to the Waller County. A comparative summary of the District's overall financial position, as of April 30, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 1,158,681	\$ 24,047
Capital assets	7,355,427	
Total assets	<u>8,514,108</u>	<u>24,047</u>
Current liabilities	5,904,490	145,692
Long-term liabilities	<u>8,006,378</u>	<u>51,250</u>
Total liabilities	<u>13,910,868</u>	<u>196,942</u>
Net position		
Net investment in capital assets	(396,179)	
Unrestricted	<u>(5,000,581)</u>	<u>(172,895)</u>
Total net position	<u>\$ (5,396,760)</u>	<u>\$ (172,895)</u>

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2022***

The total net position of the District decreased during the current fiscal year by \$5,223,865. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2022</u>	<u>2021</u>
Revenues		
Property taxes, penalties and interest	\$ 158,366	\$ -
Water and sewer service	36,901	
Other	953,707	13
Total revenues	<u>1,148,974</u>	<u>13</u>
Expenses		
Current service operations	840,624	172,908
Debt interest and fees	22,515	
Debt issuance costs	116,175	
Depreciation	169,377	
Total expenses	<u>1,148,691</u>	<u>172,908</u>
Change in net position before other item	283	(172,895)
Other item		
Transfers to other governments	<u>(5,224,148)</u>	
Change in net position	(5,223,865)	(172,895)
Net position, beginning of year	<u>(172,895)</u>	
Net position, end of year	<u>\$ (5,396,760)</u>	<u>\$ (172,895)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of April 30, 2022, were \$591,706, which consists of \$416,041 in the General Fund and \$175,665 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of April 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Total assets	<u>\$ 983,016</u>	<u>\$ 24,047</u>
Total liabilities	\$ 566,975	\$ 145,692
Total fund balance	416,041	(121,645)
Total liabilities and fund balance	<u>\$ 983,016</u>	<u>\$ 24,047</u>

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2022***

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2022	2021
Total revenues	\$ 1,148,545	\$ 13
Total expenditures	<u>(747,603)</u>	<u>(172,908)</u>
Revenues over/(under) expenditures	400,942	(172,895)
Other changes in fund balance	<u>136,744</u>	<u>51,250</u>
Net change in fund balance	<u><u>\$ 537,686</u></u>	<u><u>\$ (121,645)</u></u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, the provision of water and sewer services to customers within the District, tap connection fees charged to homebuilders in the District and developer advances. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. The District levied its first maintenance tax during the current year.
- Water and sewer revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with homebuilding activity within the District.
- The District's developer advances funds to the District as needed to pay operating costs.

Capital Projects Fund

A Capital Projects Fund was established to account for the expenditure of proceeds from the issuance of the District's Series 2022 Bond Anticipation Note. A summary of the financial position of the Capital Projects Fund as of April 30, 2022 is as follows:

Total assets	<u><u>\$ 175,665</u></u>
Total fund balance	<u><u>\$ 175,665</u></u>

A summary of activities in the Capital Projects Fund for the current year is as follows:

Total revenues	\$ 429
Total expenditures	<u>(4,964,270)</u>
Revenues under expenditures	(4,963,841)
Other changes in fund balance	<u>5,139,506</u>
Net change in fund balance	<u><u>\$ 175,665</u></u>

The District's capital asset activity in the current year was financed with proceeds from the issuance of its Series 2022 Bond Anticipation Note.

*Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2022*

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated expenditures and other financing sources.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$537,221 greater than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Capital assets held by the District at April 30, 2022 and 2021 are summarized as follows:

Capital assets being depreciated	
Infrastructure	\$ 7,447,072
Landscaping improvements	77,732
	<u>7,524,804</u>
Less accumulated depreciation	
Infrastructure	(165,490)
Landscaping improvements	(3,887)
	<u>(169,377)</u>
Capital assets, net	<u>\$ 7,355,427</u>

The District did not have any capital assets to report as of April 30, 2021. Capital asset additions during the current year include the following:

- Collector A and B Section 11 – utilities
- Sunterra Sections 1 – 10 – utilities
- Sunterra Sections 1 – 4 – hardscape

Waller County assumes responsibility (after a one-year maintenance period) for road facilities constructed within the boundaries of the County. Accordingly, these facilities are not considered assets of the District. The estimated value of these assets is recorded as transfers to other governments upon completion of construction. This estimated cost is trued-up when the developer is reimbursed. For the year ended April 30, 2022, capital assets in the amount of \$5,224,148 have been recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2022***

Long-Term Debt and Related Liabilities

As of April 30, 2022, the District owes approximately \$8,006,378 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 7, the District has an additional commitment in the amount of \$9,090,868 for projects under construction by the developers. As noted, the District will owe its developer for these projects upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

As of April 30, 2022, the District had \$134,830,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$40,449,000 for the refunding of such bonds; \$49,780,000 for parks and recreational facilities and \$14,934,000 for the refunding of such bonds; and \$127,245,000 for road improvements and \$38,174,000 for the refunding of such bonds.

During the current year, the District issued a \$5,315,000 bond anticipation note (BAN) to provide short-term financing for developer reimbursements. The District intends to repay the BAN with proceeds from the issuance of long-term debt. See Note 6 for additional information.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and water/sewer services and the projected cost of operating the District and providing services to customers. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2022 Actual</u>	<u>2023 Budget</u>
Total revenues	\$ 1,148,545	\$ 2,599,522
Total expenditures	<u>(747,603)</u>	<u>(2,272,702)</u>
Revenues over expenditures	400,942	326,820
Other changes in fund balance	136,744	
Net change in fund balance	537,686	326,820
Beginning fund balance	<u>(121,645)</u>	416,041
Ending fund balance	<u><u>\$ 416,041</u></u>	<u><u>\$ 742,861</u></u>

Property Taxes

The District's property tax base increased approximately \$52,956,000 for the 2022 tax year from \$10,453,146 to \$63,408,867, based on preliminary values. This increase was primarily due to new construction in the District and increased property values.

Basic Financial Statements

Harris - Waller Counties Municipal Utility District No. 5
Statement of Net Position and Governmental Funds Balance Sheet
April 30, 2022

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 501,022	\$ -	\$ 501,022	\$ -	\$ 501,022
Investments	419,015	177,141	596,156		596,156
Taxes receivable	17,309		17,309		17,309
Customer service receivables	33,654		33,654		33,654
Internal balances	1,476	(1,476)			
Prepaid items	852		852		852
Other receivables	9,688		9,688		9,688
Capital assets, net				7,355,427	7,355,427
Total Assets	<u>\$ 983,016</u>	<u>\$ 175,665</u>	<u>\$ 1,158,681</u>	<u>7,355,427</u>	<u>8,514,108</u>
Liabilities					
Accounts payable	\$ 114,387	\$ -	\$ 114,387		114,387
Customer deposits	62,000		62,000		62,000
Builder deposits	22,525		22,525		22,525
Unearned revenue	251,610		251,610		251,610
Due to other governments	116,453		116,453		116,453
Accrued interest payable				22,515	22,515
Bond anticipation note payable				5,315,000	5,315,000
Due to developers				8,006,378	8,006,378
Total Liabilities	<u>566,975</u>	<u></u>	<u>566,975</u>	<u>13,343,893</u>	<u>13,910,868</u>
Fund Balance/Net Position					
Fund Balance					
Nonspendable	852		852	(852)	
Restricted		175,665	175,665	(175,665)	
Unassigned	415,189		415,189	(415,189)	
Total Fund Balances	<u>416,041</u>	<u>175,665</u>	<u>591,706</u>	<u>(591,706)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 983,016</u>	<u>\$ 175,665</u>	<u>\$ 1,158,681</u>		
Net Position					
Net investment in capital assets				(396,179)	(396,179)
Unrestricted				(5,000,581)	(5,000,581)
Total Net Position				<u>\$ (5,396,760)</u>	<u>\$ (5,396,760)</u>

See notes to basic financial statements.

*Harris - Waller Counties Municipal Utility District No. 5
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances
For the Year Ended April 30, 2022*

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues					
Water service	\$ 27,381	\$ -	\$ 27,381	\$ -	\$ 27,381
Sewer service	9,520		9,520		9,520
Property taxes	156,797		156,797		156,797
Penalties and interest	1,569		1,569		1,569
Tap connection and inspection	952,845		952,845		952,845
Miscellaneous	340		340		340
Investment earnings	93	429	522		522
Total Revenues	<u>1,148,545</u>	<u>429</u>	<u>1,148,974</u>		<u>1,148,974</u>
Expenditures/Expenses					
Current service operations					
Purchased services	223,041		223,041		223,041
Professional fees	95,630	93,021	188,651		188,651
Contracted services	389,411		389,411		389,411
Repairs and maintenance	20,587		20,587		20,587
Administrative	17,364		17,364		17,364
Other	1,570		1,570		1,570
Capital outlay		4,755,074	4,755,074	(4,755,074)	
Debt service					
Interest and fees				22,515	22,515
Debt issuance costs		116,175	116,175		116,175
Depreciation				169,377	169,377
Total Expenditures/Expenses	<u>747,603</u>	<u>4,964,270</u>	<u>5,711,873</u>	<u>(4,563,182)</u>	<u>1,148,691</u>
Revenues Over/(Under) Expenses/Expenditures	400,942	(4,963,841)	(4,562,899)	4,563,182	283
Other Financing Sources/(Uses)					
Proceeds from bond anticipation note		5,315,000	5,315,000	(5,315,000)	
Operating advances	25,000		25,000	(25,000)	
Repayment of developer advances		(63,750)	(63,750)	63,750	
Internal transfers	111,744	(111,744)			
Other Item					
Transfers to other governments				(5,224,148)	(5,224,148)
Net Change in Fund Balance Change in Net Position	537,686	175,665	713,351	(713,351)	(5,223,865)
Fund Balance/Net Position					
Beginning of the year	(121,645)	-	(121,645)	(51,250)	(172,895)
End of the year	<u>\$ 416,041</u>	<u>\$ 175,665</u>	<u>\$ 591,706</u>	<u>\$ (5,988,466)</u>	<u>\$ (5,396,760)</u>

See notes to basic financial statements.

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Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris - Waller Counties Municipal Utility District No. 5 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created, and established pursuant to House Bill No. 4520, 86th Session of the Texas Legislature, Regular Session, codified as Chapter 8047, Texas Special District Local Law Code (the “Act”), effective May 3, 2019, and operates in accordance with Section 52, Article III, and Section 59, Article XVI, of the Texas Constitution, and the Texas Water Code, Chapters 49 and 54. On July 30, 2020, the voters of the District approved a proposition dividing the District into three districts: the District, Harris - Waller Counties Municipal Utility District No. 4 (“MUD 4”) and Waller County Municipal Utility District No. 37 (“MUD 37”). The Board of Directors held its first meeting on August 11, 2020.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has two governmental funds, which are both considered major funds.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District’s water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District’s water, sewer and drainage facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, interest earned on investments and income from District operations. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At April 30, 2022, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$50,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities, are depreciated using the straight-line method as follows:

Assets	Useful Life
Infrastructure	45 years
Landscaping improvements	20 years

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District’s nonspendable fund balance consists of prepaid items.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District’s restricted fund balances consist of unspent bond anticipation note proceeds in the Capital Projects Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to Waller County and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Fund Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds		\$ 591,706
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 7,524,804	
Less accumulated depreciation	<u>(169,377)</u>	
Change due to capital assets		7,355,427
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bond anticipation payable	(5,315,000)	
Interest payable on bond anticipation note	<u>(22,515)</u>	
Change due to long-term debt		(5,337,515)
Amounts due to the District's developer for operating advances are recorded as a liability in the <i>Statement of Net Position</i> .		(8,006,378)
Total net position - governmental activities		<u><u>\$ (5,396,760)</u></u>

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance* to the *Statement of Activities*

Net change in fund balances - total governmental funds \$ 713,351

Governmental funds report capital outlays for developer reimbursements as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset. Other assets are recorded as transfers to other governments.

Capital outlays	\$ 4,755,074	
Depreciation expense	(169,377)	
Transfers to other governments	<u>(5,224,148)</u>	(638,451)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

Proceeds from bond anticipation note	(5,315,000)	
Interest payable on bond anticipation note	<u>(22,515)</u>	(5,337,515)

Amounts received from the District's developer for operating advances provide financial resources at the fund level, but are recorded as a liability in the *Statement of Net Position*. (25,000)

Amounts repaid to the District's developer for operating advances use financial resources at the fund level, but reduce the liability in the *Statement of Net Position*. 63,750

Change in net position of governmental activities \$ (5,223,865)

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 3 – Deposits and Investments (continued)

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of April 30, 2022, the District's investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexSTAR	General	\$ 419,015	AAAm	36 days
	Capital Projects	177,141		
		\$ 596,156		

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 3 – Deposits and Investments (continued)

TexSTAR

The District participates in Texas Short Term Asset Reserve fund (TexSTAR) which is managed by Hilltop Securities, Inc., and J.P. Morgan Investment Management, Inc. Hilltop Securities provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

The District’s investment in TexSTAR is reported at fair value because TexSTAR uses fair value to report investments. Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District’s investment in TexSTAR is measured using published fair value per share (level 1 inputs).

Investments in TexSTAR may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District’s investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at April 30, 2022, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General	Capital Projects	\$ 1,476	Debt issuance costs paid by the General Fund

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

During the current year, the District transferred \$111,744 from the Capital Projects Fund to the General Fund to reimburse legal fees paid in previous years.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended April 30, 2022, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets being depreciated			
Infrastructure	\$ -	\$ 7,447,072	\$ 7,447,072
Landscaping improvements		77,732	77,732
		<u>7,524,804</u>	<u>7,524,804</u>
Less accumulated depreciation			
Infrastructure		(165,490)	(165,490)
Landscaping improvements		(3,887)	(3,887)
		<u>(169,377)</u>	<u>(169,377)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 7,355,427</u>	<u>\$ 7,355,427</u>

Depreciation expense for the current year was \$169,377.

Note 6 – Bond Anticipation Note

The District uses a bond anticipation note (BAN) to provide short-term financing for reimbursements to its developers. Despite its short-term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long-term debt or another BAN. It is, however, recorded as a liability at the government-wide level.

On February 28, 2022, the District issued a \$5,315,000 BAN with an interest rate of 2.50%, which is due on February 22, 2023.

The effect of this transaction on the District’s short-term obligations are as follows:

Beginning balance	\$ -
Amounts borrowed	5,315,000
Ending balance	<u>\$ 5,315,000</u>

Note 7 – Due to Developers

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, drainage, and park and recreational facilities and road improvements. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 7 – Due to Developers (continued)

The District’s developers have also advanced funds to the District for operating expenses.

Changes in the estimated amounts due to developers during the year are as follows:

Due to developers, beginning of year	\$ 51,250
Developer reimbursements	(4,755,074)
Developer funded construction and adjustments	12,748,952
Repayment of operating advances	(63,750)
Operating advances from developer	25,000
Due to developers, end of year	<u><u>\$ 8,006,378</u></u>

In addition, the District will owe the developers approximately \$9,090,868, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Sunterra Section 17 - utilities	\$ 2,112,500	\$ 1,841,565	\$ 270,935
Sunterra Section 12 and 13 - utilities and paving	4,310,632	3,504,749	805,883
Sunterra Sections 1 - 4 - landscaping and irrigation	372,333	268,286	104,047
Sunterra Sections 5 - 7 & 11 - landscaping and irrigation	896,596		896,596
Sunterra Section 8 & 9 - landscaping and irrigation	608,365		608,365
Sunterra Sections 5 - 9 & 11 - landscaping and irrigation	571,619		571,619
Sunterra Section 10 - landscaping and irrigation	154,455		154,455
Sunterra Section 10 - hardscape	64,367	13,322	51,045
	<u><u>\$ 9,090,868</u></u>	<u><u>\$ 5,627,922</u></u>	<u><u>\$ 3,462,946</u></u>

Note 8 – Long-Term Debt

On May 1, 2021, the voters of the District authorized the District’s Board of Directors to issue bonds in the amount of \$134,830,000 for water, sanitary sewer and drainage systems within the District and \$40,449,000 for the refunding of such bonds; \$49,780,000 for parks and recreational facilities and \$14,934,000 for the refunding of such bonds; and \$127,245,000 for road improvements and \$38,174,000 for the refunding of such bonds.

Note 9 – Property Taxes

On November 3, 2020, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value and a road maintenance tax limited to \$0.25 per \$100 of assessed value. The District has not levied a maintenance tax or road maintenance tax.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 9 – Property Taxes (continued)

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

Property taxes are collected based on rates adopted in the year of the levy. The District's 2022 fiscal year was financed through the 2021 tax levy, pursuant to which the District levied property taxes of \$1.50 per \$100 of assessed value, all of which was allocated to maintenance and operations. The resulting tax levy was \$156,797 on the adjusted taxable value of \$10,453,146.

Note 10 – Transfers to Other Governments

Waller County assumes responsibility for the maintenance of public roads constructed within the county limits. Accordingly, road facilities are considered to be capital assets of Waller County, not the District. The estimated cost of each road project is recorded as a transfer to other government upon completion of construction. This cost is trued-up when the developer is subsequently reimbursed. For the year ended April 30, 2022, the District recorded transfers to other governments in the amount of \$5,224,148 for road facilities constructed by a developer within the District.

Note 11 – Master District

On November 17, 2020, the District entered into a Contract for Financing, Operation and Maintenance of Regional Facilities (the "Contract") with MUD 4 (the "Master District"), as subsequently amended, whereby the Master District agrees to provide or cause to be provided the regional water, wastewater, drainage and road facilities necessary to serve all participating districts located within the Master District's service area.

The Contract authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. Prior to commencement of services, the Master District shall bill the District to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually.

Upon commencement of services, the Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection multiplied by the number of equivalent single-family connections reserved to the District. The term of the Contract is 40 years. During the current year, the District paid \$223,041 to the Master District for its share of operation and maintenance expenses.

The Master District is authorized to issue contract revenue bonds for the purpose of acquiring and constructing regional water, wastewater, drainage, and road facilities needed to provide services to all participating districts in the service area. The District shall contribute annually to the payment of debt service requirements based on its pro rata share of the total certified assessed valuation of all participating districts. As of April 30, 2022, the Master District has not issued any bonds.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2022

Note 12 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 13 – Economic Dependency

The District is dependent upon its developers for operating advances. The developers continue to own a substantial portion of the taxable property within the District. The developers' willingness to make future operating advances and/or to pay property taxes will directly affect the District's ability to meet its future obligations.

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Required Supplementary Information

Harris - Waller Counties Municipal Utility District No. 5
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended April 30, 2022

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Water service	\$ -	\$ -	\$ 27,381	\$ 27,381
Sewer service			9,520	9,520
Property taxes			156,797	156,797
Penalties and interest			1,569	1,569
Tap connection and inspection			952,845	952,845
Miscellaneous			340	340
Investment earnings	15	15	93	78
Total Revenues	<u>15</u>	<u>15</u>	<u>1,148,545</u>	<u>1,148,530</u>
Expenditures				
Operating and administrative				
Purchased services			223,041	(223,041)
Professional fees	200,000	126,000	95,630	30,370
Contracted services	11,000	11,000	389,411	(378,411)
Repairs and maintenance			20,587	(20,587)
Administrative	30,550	19,550	17,364	2,186
Other	1,000	1,000	1,570	(570)
Total Expenditures	<u>242,550</u>	<u>157,550</u>	<u>747,603</u>	<u>(590,053)</u>
Revenues Over/(Under) Expenditures	(242,535)	(157,535)	400,942	558,477
Other Financing Sources				
Internal transfers			111,744	111,744
Operating advances	245,000	158,000	25,000	(133,000)
Net Change in Fund Balance	2,465	465	537,686	537,221
Fund Balance				
Beginning of the year	(121,645)	(121,645)	(121,645)	
End of the year	<u>\$ (119,180)</u>	<u>\$ (121,180)</u>	<u>\$ 416,041</u>	<u>\$ 537,221</u>

Harris - Waller Counties Municipal Utility District No. 5
Notes to Required Supplementary Information
April 30, 2022

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated expenditures and other financing sources.

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Texas Supplementary Information

Harris - Waller Counties Municipal Utility District No. 5
TSI-1. Services and Rates
April 30, 2022

1. Services provided by the District During the Fiscal Year:

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

2. Retail Service Providers

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	\$ 46.00	10,000	N	\$ 4.30	10,001 to no limit
Wastewater:	\$ 47.50	0	Y		

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 46.00 Wastewater \$ 47.50

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	609	607	x 1.0	607
1"			x 2.5	
1.5"			x 5.0	
2"	7	7	x 8.0	56
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	616	614		663
Total Wastewater	608	606	x 1.0	606

See accompanying auditors' report.

Harris - Waller Counties Municipal Utility District No. 5
TSI-1. Services and Rates
April 30, 2022

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

Gallons purchased:	<u>2,399,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>2,399,000</u>	(Gallons billed / Gallons pumped)
		<u>100.00%</u>

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: _____

5. Location of District:

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Harris and Waller Counties

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: _____

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

Entirely Partly Not at all

ETJs in which the District is located: City of Houston

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

See accompanying auditors' report.

*Harris - Waller Counties Municipal Utility District No. 5
TSI-2 General Fund Expenditures
For the Year Ended April 30, 2022*

Purchased services	<u>\$ 223,041</u>
Professional fees	
Legal	19,200
Audit	8,000
Engineering	68,430
	<u>95,630</u>
Contracted services	
Bookkeeping	14,000
Operator	11,781
Tax assessor collector	5,462
Tap connection and inspection	343,845
Garbage service	11,695
Appraisal District fees	2,628
	<u>389,411</u>
Repairs and maintenance	<u>20,587</u>
Administrative	
Directors fees	7,050
Printing and office supplies	5,236
Insurance	3,012
Other	2,066
	<u>17,364</u>
Other	<u>1,570</u>
Total expenditures	<u>\$ 747,603</u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	N/A	N/A
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Harris - Waller Counties Municipal Utility District No. 5
TSI-3. Investments
April 30, 2022

Fund	Interest Rate	Maturity Date	Balance at End of Year
General			
TexSTAR	Variable	N/A	<u>\$ 419,015</u>
Capital Projects			
TexSTAR	Variable	N/A	<u>177,141</u>
Total - All Funds			<u><u>\$ 596,156</u></u>

See accompanying auditors' report.

Harris - Waller Counties Municipal Utility District No. 5
TSI-4. Taxes Levied and Receivable
April 30, 2022

	Maintenance Taxes
2021 Original Tax Levy	\$ 130,291
Adjustments	26,506
Adjusted Tax Levy	<u>156,797</u>
Tax collections:	
Current year	<u>139,488</u>
Taxes Receivable, End of Year	<u>\$ 17,309</u>
Taxes Receivable, By Years	
2021	<u>\$ 17,309</u>
	<u>2021</u>
Property Valuations:	
Land	\$ 10,036,475
Improvements	440,490
Personal Property	75,825
Exemptions	(99,644)
Total Property Valuations	<u>\$ 10,453,146</u>
Tax Rates per \$100 Valuation:	
Maintenance tax rates	<u>\$ 1.50</u>
Adjusted Tax Levy:	<u>\$ 156,797</u>
Percentage of Taxes Collected to Taxes Levied ***	<u>88.96%</u>

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on November 17, 2020

** Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on November 17, 2020

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

See accompanying auditors' report.

Harris - Waller Counties Municipal Utility District No. 5
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Two Fiscal Years

	Amounts		Percent of Fund Total Revenues	
	2022	2021	2022	2021
Revenues				
Water service	\$ 27,381	\$ -	2%	
Sewer service	9,520		1%	
Property taxes	156,797		14%	
Penalties and interest	1,569		*	
Tap connection and inspection	952,845		83%	
Miscellaneous	340		*	
Investment earnings	93	13	*	100%
Total Revenues	<u>1,148,545</u>	<u>13</u>	<u>100%</u>	<u>100%</u>
Expenditures				
Operating and administrative				
Purchased services	223,041		19%	
Professional fees	95,630	155,968	8%	1199754%
Contracted services	389,411	6,000	34%	46154%
Repairs and maintenance	20,587		2%	
Administrative	17,364	9,904	2%	76185%
Other	1,570	1,036	*	7969%
Total Expenditures	<u>747,603</u>	<u>172,908</u>	<u>65%</u>	<u>1330062%</u>
Revenues Over/(Under) Expenditures	<u>\$ 400,942</u>	<u>\$ (172,895)</u>	<u>35%</u>	<u>(1329962%)</u>
Total Active Retail Water Connections	<u>614</u>	<u>N/A</u>		
Total Active Retail Wastewater Connections	<u>606</u>	<u>N/A</u>		

*Percentage is negligible

See accompanying auditors' report.

**Harris - Waller Counties Municipal Utility District No. 5
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended April 30, 2022**

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
 District Business Telephone Number: (713) 860-6400
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): November 17, 2020
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Christie Leighton	11/20 - 05/24	\$ 1,650	\$ 185	President
Brian Lopera	11/20 - 05/24	1,350	183	Vice President
Olga M. Strong	11/20 - 05/24	1,800	45	Secretary
Andrew Palermo	11/20 - 05/22	900	68	Assistant Vice President
Cindy Morrow	11/20 - 05/22	1,350	45	Assistant Secretary
Consultants				
Allen Boone Humphries Robinson LLP	2020	Amounts Paid		Attorney
<i>General legal fees</i>		\$ 243,495		
<i>Bond counsel</i>		53,150		
Municipal District Services	2020	298,612		Operator
Myrtle Cruz, Inc.	2020	15,552		Bookkeeper
Bob Leared Interests	2020	5,462		Tax Collector
Waller County Appraisal District	Legislation	2,437		Property Valuation
Harris County Appraisal District	Legislation	191		Property Valuation
Perdue Brandon Fielder Collins & Mott, LLP	2020			Delinquent Tax Attorney
Quiddity Engineering, LLC	2020	66,581		Engineer
Kimley-Horn & Associates, Inc.	2020			Landscape Architect
McGrath & Co., PLLC	2020	14,375		Auditor
R.W. Baird & Co., Inc.	2020	53,150		Financial Advisor

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

See accompanying auditors' report.

**WALLER COUNTY MUNICIPAL
UTILITY DISTRICT NO. 37**

WALLER COUNTY, TEXAS

FINANCIAL REPORT

April 30, 2022

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McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's Report

Board of Directors
Waller County Municipal Utility District No. 37
Waller County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and General Fund of Waller County Municipal Utility District No. 37 (the "District"), as of and for the year ended April 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of Waller County Municipal Utility District No. 37, as of April 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied

***Board of Directors
Waller County Municipal Utility District No. 37
Waller County, Texas***

certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

McGuire & Co, P.C.

Houston, Texas
September 8, 2022

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Management's Discussion and Analysis

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***Waller County Municipal Utility District No. 37
Management's Discussion and Analysis
April 30, 2022***

Using this Annual Report

Within this section of the financial report of Waller County Municipal Utility District No. 37 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended April 30, 2022. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

***Waller County Municipal Utility District No. 37
Management's Discussion and Analysis
April 30, 2022***

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. 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, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at April 30, 2022, was negative \$93,432. This amount is negative because the District relies on advances from its developer to fund operating costs. A comparative summary of the District's overall financial position, as of April 30, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>
Current and other assets	<u>\$ 115,281</u>	<u>\$ 7,701</u>
Current liabilities	111,213	34,804
Long-term liabilities	97,500	60,000
Total liabilities	<u>208,713</u>	<u>94,804</u>
Net position		
Unrestricted	<u>(93,432)</u>	<u>(87,103)</u>
Total net position	<u><u>\$ (93,432)</u></u>	<u><u>\$ (87,103)</u></u>

Waller County Municipal Utility District No. 37
Management's Discussion and Analysis
April 30, 2022

The total net position of the District decreased during the current fiscal year by \$6,329. A comparative summary of the District's *Statement of Activities* for the current year and prior period (unaudited) is as follows:

	2022	2021
Revenues		
Property taxes, penalties and interest	\$ 121,596	\$ -
Other		4
Total revenues	<u>121,596</u>	<u>4</u>
Expenses		
Current service operations	<u>127,925</u>	<u>87,107</u>
Change in net position	(6,329)	(87,103)
Net position, beginning of year	(87,103)	
Net position, end of year	<u>\$ (93,432)</u>	<u>\$ (87,103)</u>

Financial Analysis of the District's General Fund

The District's fund balance in the General Fund, as of April 30, 2022, was \$4,060. A comparative summary of the General Fund's financial position as of April 30, 2022 and 2021 is as follows:

	2022	2021
Total assets	<u>\$ 115,281</u>	<u>\$ 7,701</u>
Total liabilities	\$ 111,213	\$ 34,804
Total deferred inflows	8	
Total fund balance	<u>4,060</u>	<u>(27,103)</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 115,281</u>	<u>\$ 7,701</u>

A comparative summary of the General Fund's activities for the current year and prior period (unaudited) is as follows:

	2022	2021
Total revenues	\$ 121,588	\$ 4
Total expenditures	<u>(127,925)</u>	<u>(87,107)</u>
Revenues under expenditures	(6,337)	(87,103)
Other changes in fund balance	37,500	60,000
Net change in fund balance	<u>\$ 31,163</u>	<u>\$ (27,103)</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy and developer advances.

***Waller County Municipal Utility District No. 37
Management's Discussion and Analysis
April 30, 2022***

Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District.
- The District's developer advances funds to the District as needed to pay operating costs.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$22,313 greater than budgeted. The *Budgetary Comparison Schedule* on page 26 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developer for the financing of the construction of capital assets within the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction. The District did not have any completed capital assets to report as of April 30, 2022.

Long-Term Debt and Related Liabilities

As of April 30, 2022, the District owes \$97,500 to its developer for operating advances. As discussed in Note 4, the District has an additional commitment in the amount of \$17,426,355 for projects under construction by the developer. As noted, the District will owe its developer for these projects upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

At April 30, 2022, the District had \$122,760,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$36,828,000 for the refunding of such bonds; \$40,545,000 for parks and recreational facilities and \$12,164,000 for the refunding of such bonds; \$117,145,000 for road improvements and \$35,144,000 for the refunding of such bonds.

***Waller County Municipal Utility District No. 37
Management's Discussion and Analysis
April 30, 2022***

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and water/sewer services and the projected cost of operating the District and providing services to customers. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2022 Actual</u>	<u>2023 Budget</u>
Total revenues	\$ 121,588	\$ 1,700,560
Total expenditures	<u>(127,925)</u>	<u>(1,455,978)</u>
Revenues over/(under) expenditures	(6,337)	244,582
Other changes in fund balance	<u>37,500</u>	
Net change in fund balance	31,163	244,582
Beginning fund balance	<u>(27,103)</u>	<u>4,060</u>
Ending fund balance	<u><u>\$ 4,060</u></u>	<u><u>\$ 248,642</u></u>

Property Taxes

The District's property tax base increased approximately \$10,504,000 for the 2022 tax year from \$8,106,427 to \$18,610,650. This increase was primarily due to new construction in the District.

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Basic Financial Statements

Waller County Municipal Utility District No. 37
Statement of Net Position and Governmental Fund Balance Sheet
April 30, 2022

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	\$ 115,273	\$ -	\$ 115,273
Taxes receivable	8		8
Total Assets	<u>\$ 115,281</u>		<u>115,281</u>
Liabilities			
Accounts payable	\$ 111,213		111,213
Due to developer		97,500	97,500
Total Liabilities	<u>111,213</u>	<u>97,500</u>	<u>208,713</u>
Deferred Inflows of Resources			
Deferred property taxes	<u>8</u>	<u>(8)</u>	
Fund Balance/Net Position			
Fund Balance			
Unassigned	<u>4,060</u>	<u>(4,060)</u>	
Total Fund Balances	<u>4,060</u>	<u>(4,060)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 115,281</u>		
Net Position			
Unrestricted		(93,432)	(93,432)
Total Net Position		<u>\$ (93,432)</u>	<u>\$ (93,432)</u>

See notes to basic financial statements.

*Waller County Municipal Utility District No. 37
Statement of Activities and Governmental Fund Revenues, Expenditures and
Change in Fund Balance
For the Year Ended April 30, 2022*

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 121,588	\$ 8	\$ 121,596
Expenditures/Expenses			
Current service operations			
Professional fees	89,435		89,435
Contracted services	19,253		19,253
Administrative	19,017		19,017
Other	220		220
Total Expenditures/Expenses	<u>127,925</u>		<u>127,925</u>
Revenues Over/(Under) Expenditures	(6,337)	6,337	
Other Financing Sources			
Developer advances	<u>37,500</u>	<u>(37,500)</u>	
Net Change in Fund Balance	31,163	(31,163)	
Change in Net Position		(6,329)	(6,329)
Fund Balance/Net Position			
Beginning of the year	(27,103)	(60,000)	(87,103)
End of the year	<u>\$ 4,060</u>	<u>\$ (97,492)</u>	<u>\$ (93,432)</u>

See notes to basic financial statements.

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Waller County Municipal Utility District No. 37
Notes to Financial Statements
April 30, 2022

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Waller County Municipal Utility District No. 37 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created, and established pursuant to House Bill No. 4520, 86th Session of the Texas Legislature, Regular Session, codified as Chapter 8047, Texas Special District Local Law Code (the “Act”), effective May 3, 2019, and operates in accordance with Section 52, Article III, and Section 59, Article XVI, of the Texas Constitution, and the Texas Water Code, Chapters 49 and 54. On July 30, 2020, the voters of the District approved a proposition dividing the District into three districts: the District, Harris - Waller Counties Municipal Utility District No. 4 (“MUD 4”) and Harris - Waller Counties Municipal Utility District No. 5 (“MUD 5”). The Board of Directors held its first meeting on August 11, 2020.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. The District uses only a General Fund to account for its operations. The District's principal financial resources are developer advances and property taxes.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes and interest earned on investments. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At April 30, 2022, an allowance for uncollectible accounts was not considered necessary.

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$50,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District does not have any restricted fund balances.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the value of amounts due to developer, and the values of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Waller County Municipal Utility District No. 37
Notes to Financial Statements
April 30, 2022

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Fund Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds	\$ 4,060
Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .	(97,500)
Property taxes receivable have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.	8
Total net position - governmental activities	<u>\$ (93,432)</u>

Reconciliation of the *Governmental Fund Statement of Revenues, Expenditures and Change in Fund Balance* to the *Statement of Activities*

Net change in fund balances - total governmental funds	\$ 31,163
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes.	8
Amounts received from the District's developer for operating advances provide financial resources at the fund level, but are recorded as a liability in the <i>Statement of Net Position</i> .	(37,500)
Change in net position of governmental activities	<u>\$ (6,329)</u>

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

Note 3 – Deposits and Investments (continued)

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers’ acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District’s investment program should be managed. This policy further restricts the types of investments in which the District may invest.

Note 4 – Due to Developer

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer, drainage, and park and recreational facilities and road improvements. Under the agreements, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed.

The District’s developer has also advanced funds to the District for operating expenses.

Changes in the estimated amounts due to developer during the year are as follows:

Due to developer, beginning of year	\$ 60,000
Operating advances from developer	37,500
Due to developer, end of year	<u><u>\$ 97,500</u></u>

Waller County Municipal Utility District No. 37
Notes to Financial Statements
April 30, 2022

Note 4 – Due to Developer (continued)

In addition, the District will owe the developer approximately \$17,426,355, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Sunterra Section 14 & 15 - utilities and paving	\$ 4,327,255	\$ 3,816,850	\$ 510,405
Sunterra Section 23 & Sunterra Shores - utilities and paving	764,610	572,571	192,039
Sunterra Section 15 - utilities and paving	1,262,912	1,119,136	143,776
Sunterra Section 18, 19 & 20 - utilities and paving	446,401	409,789	36,612
Sunterra Section 28 - utilities	1,257,656	1,051,452	206,204
Sunterra Section 25 - utilities	1,305,269	938,967	366,302
Sunterra Phase 4A - detention and mass grading	2,419,321		2,419,321
Sunterra Section 24 - utilities	1,155,000		1,155,000
Sunterra Shores Segment 3B - utilities and paving	956,809		956,809
Sunterra Section 20 - utilities and paving	1,074,332		1,074,332
Sunterra Section 22 - utilities and paving	575,000		575,000
Sunterra Section 29 - utilities and paving	1,881,790		1,881,790
	<u>\$ 17,426,355</u>	<u>\$ 7,908,765</u>	<u>\$ 9,517,590</u>

Note 5 – Long-Term Debt

On May 11, 2021, the voters of the District authorized the District’s Board of Directors to issue bonds in amount of \$122,760,000 for water, sewer and drainage facilities and \$36,828,000 for the refunding of such bonds; \$40,545,000 for parks and recreational facilities and \$12,164,000 for the refunding of such bonds; \$117,145,000 for road improvements and \$35,144,000 for the refunding of such bonds.

Note 6 – Property Taxes

On May 11, 2021, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value.

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

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2022 fiscal year was financed through the 2021 tax levy, pursuant to which the District levied property taxes of \$1.50 per \$100 of assessed value, all of which was allocated to maintenance and operations. The resulting tax levy was \$121,596 on the adjusted taxable value of \$8,106,427.

Waller County Municipal Utility District No. 37
Notes to Financial Statements
April 30, 2022

Note 7 – Master District

On November 17, 2020 (amended effective February 1, 2021), the District entered into a Contract for Financing, Operation, and Maintenance of Regional Facilities (the “Contract”) with Harris-Waller County MUD No. 4 (the “Master District”) whereby the Master District agrees to provide or cause to be provided the regional water, wastewater, drainage and road facilities necessary to serve all participating districts located within the Master District’s service area.

The Contract authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months’ operating and maintenance expenses, as set forth in the Master District’s annual budget. Prior to commencement of services, the Master District shall bill the District an amount calculated by multiplying the monthly fee (as defined below) by three in order to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually.

Upon commencement of services, the Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection multiplied by the number of equivalent single-family connections (“ESFCs”) reserved to the District. The term of the Contracts is 40 years. As of April 30, 2022, the District has not incurred any costs.

The Master District is authorized to issue contract revenue bonds for the purpose of acquiring and constructing regional water, wastewater, drainage and road facilities needed to provide services to all participating districts in service area. The District shall contribute annually to the payment of debt service requirements based on its pro rata share of the total certified assessed valuation of all participating districts. As of April 30, 2022, the Master District has not issued any bonds.

Note 8 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 9 – Economic Dependency

The District is dependent upon its developer for operating advances. The developer continues to own a substantial portion of the taxable property within the District. The developer’s willingness to make future operating advances and/or to pay property taxes will directly affect the District’s ability to meet its future obligations.

Required Supplementary Information

*Waller County Municipal Utility District No. 37
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended April 30, 2022*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ -	\$ 121,588	\$ 121,588
Expenditures			
Current service operations			
Professional fees	33,000	89,435	(56,435)
Contracted services	5,200	19,253	(14,053)
Administrative	12,450	19,017	(6,567)
Other	500	220	280
Total Expenditures	<u>51,150</u>	<u>127,925</u>	<u>(76,775)</u>
Revenues Over/(Under) Expenditures	(51,150)	(6,337)	44,813
Other Financing Sources			
Developer advances	<u>60,000</u>	<u>37,500</u>	<u>(22,500)</u>
Net Change in Fund Balance	8,850	31,163	22,313
Fund Balance			
Beginning of the year	(27,103)	(27,103)	
End of the year	<u>\$ (18,253)</u>	<u>\$ 4,060</u>	<u>\$ 22,313</u>

Waller County Municipal Utility District No. 37
Notes to Required Supplementary Information
April 30, 2022

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Waller County Municipal Utility District No. 37
TSI-1. Services and Rates
April 30, 2022

1. Services provided by the District During the Fiscal Year:

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate (Y / N)</u>	<u>Rate per 1,000 Gallons Over Minimum Usage</u>	<u>Usage Levels</u>
Water:	\$ 46.00	10,000	N	\$ 4.30	10,001 to no limit
Wastewater:	\$ 47.50	N/A	Y		

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 46.00 Wastewater \$ 47.50

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC'S</u>
Unmetered	_____	_____	x 1.0	_____
less than 3/4"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1.5"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water	_____	_____	_____	_____
Total Wastewater	_____	_____	x 1.0	_____

See accompanying auditor's report.

Waller County Municipal Utility District No. 37
TSI-1. Services and Rates
April 30, 2022

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

Gallons pumped into system:	<u> N/A </u>	Water Accountability Ratio:
Gallons billed to customers:	<u> N/A </u>	(Gallons billed / Gallons pumped)
		<u> N/A </u>

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: _____

5. Location of District

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Waller County

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: _____

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

Entirely Partly Not at all

ETJs in which the District is located: City of Houston

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

See accompanying auditor's report.

*Waller County Municipal Utility District No. 37
 TSI-2. General Fund Expenditures
 For the Year Ended April 30, 2022*

Professional fees		
Legal	\$	76,409
Engineering		13,026
		<u>89,435</u>
Contracted services		
Bookkeeping		13,250
Tax assessor/collector		3,418
Appraisal District fees		2,585
		<u>19,253</u>
Administrative		
Directors fees		6,750
Printing and office supplies		3,399
Insurance		7,069
Other		1,799
		<u>19,017</u>
Other		<u>220</u>
Total expenditures	\$	<u><u>127,925</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	N/A	N/A
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditor's report.

*Waller County Municipal Utility District No. 37
 TSI-4. Taxes Levied and Receivable
 April 30, 2022*

	Maintenance Taxes
2021 Original Tax Levy	\$ 150,747
Adjustments	(29,151)
Adjusted Tax Levy	<u>121,596</u>
Tax collections:	
Current year	<u>121,588</u>
Taxes Receivable, End of Year	<u>\$ 8</u>
Taxes Receivable, By Years	
2021	<u>\$ 8</u>
	<u>2021</u>
Property Valuations:	
Land	\$ 7,937,030
Improvements	97,060
Personal Property	131,842
Exemptions	(59,505)
Total Property Valuations	<u>\$ 8,106,427</u>
Tax Rates per \$100 Valuation:	
Maintenance tax rates	<u>\$ 1.50</u>
Adjusted Tax Levy:	<u>\$ 121,596</u>
Percentage of Taxes Collected to Taxes Levied **	<u>99.99%</u>

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 11, 2021

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

See accompanying auditor's report.

Waller County Municipal Utility District No. 37
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Two Fiscal Years

	Amounts		Percent of Fund Total Revenues	
	2022	2021**	2022	2021**
Revenues				
Property taxes	\$ 121,588	\$ -	100%	
Investment earnings		4		N/A
Total Revenues	121,588	4	100%	N/A
Expenditures				
Current service operations				
Professional fees	89,435	77,830	74%	N/A
Contracted services	19,253	2,400	16%	N/A
Administrative	19,017	6,877	16%	N/A
Other	220		*	
Total Expenditures	127,925	87,107	106%	N/A
Revenues Under Expenditures	\$ (6,337)	\$ (87,103)	(6%)	N/A

*Percentage is negligible

** Unaudited

See accompanying auditor's report.

Waller County Municipal Utility District No. 37
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended April 30, 2022

Complete District Mailing Address: 3200 Southwest Freeway Suite 2600
District Business Telephone Number: (713)-860-6400
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): October 14, 2021
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Matthew C. Deal	11/20 - 5/22	\$ 1,500	\$ -	President
Jeth Jones	11/20 - 5/22	1,200		Vice President
Brian Welch	11/20 - 5/24	1,500	6	Secretary
Leigh Ellis	11/20 - 5/24	1,500		Assistant Secretary
David Moriniere	10/21 - 5/24	750		Assistant Vice President
Gregg Pratka		300		Former Director
Consultants				
		Amounts Paid		
Allen Boone Humphries Robinson LLP <i>General legal fees</i>	2020	\$ -		Attorney
Myrtle Cruz, Inc.	2020	14,390		Bookkeeper
Bob Leared Interests	2020	3,419		Tax Collector
Waller County Appraisal District	<i>Legislation</i>	2,585		Property Valuation
Quiddity Engineering, LLC	2020	10,240		Engineer
McGrath & Co., PLLC	2020			Auditor
R.W. Baird & Co., Incorporated	2020			Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.
See accompanying auditor's report.

Harris County Municipal Utility District No. 569
Harris County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2022

Harris County Municipal Utility District No. 569
May 31, 2022

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Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 569
Harris County, Texas

Opinions

We have audited the financial statements of the governmental activities and general fund of Harris County Municipal Utility District No. 569 (the District), as of and for the period from inception (June 10, 2019) to May 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the District, as of May 31, 2022, and the respective changes in financial position thereof for the period from inception (June 10, 2019) to May 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance

and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information (Not Subjected to Audit Procedures)

Our audit was performed for the purpose of forming opinions on the basic financial statements as a whole. The accompanying schedules required by the Texas Commission on Environmental Quality listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

FORVIS,LLP

Houston, Texas
November 7, 2022

Harris County Municipal Utility District No. 569

Management's Discussion and Analysis

May 31, 2022

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

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

Harris County Municipal Utility District No. 569
Management's Discussion and Analysis (Continued)
May 31, 2022

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

Fund Financial Statements

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

Governmental Fund

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

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

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

Notes to Financial Statements

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

Harris County Municipal Utility District No. 569
Management's Discussion and Analysis (Continued)
May 31, 2022

Financial Analysis of the District as a Whole

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

Summary of Net Position

Current and other assets	\$ 13,533
Long-term liabilities	\$ 75,000
Other liabilities	41,200
Total liabilities	116,200
Unrestricted net position	\$ (102,667)

The total net position of the District decreased by \$102,667. The decrease in net position is related to service operations expenses incurred in the current period.

Summary of Changes in Net Position

Expenses:	
Services	\$ 102,667
Change in net position	(102,667)
Net position, beginning of period	-
Net position, end of period	\$ (102,667)

Financial Analysis of the District's Fund

The general fund's fund balance decreased by \$27,667, due to service operations expenditures exceeding developer advances received.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to professional fees expenditures and developer advances received being less than anticipated and other expenditures being greater than anticipated. The fund balance as of May 31, 2022, was expected to be \$0 and the actual end-of-period fund balance was \$(27,667).

Harris County Municipal Utility District No. 569
Management's Discussion and Analysis (Continued)
May 31, 2022

Long-term Liabilities

Debt

The changes in the debt position of the District during the period from inception (June 10, 2019) to May 31, 2022, are summarized as follows:

Long-term debt payable, beginning of period	\$	-
Increases in long-term debt		75,000
		75,000
Long-term debt payable, end of period	\$	75,000

At May 31, 2022, the District had \$241,500,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District, \$161,100,000 of unlimited tax bonds authorized, but unissued, for the purpose of constructing roads and \$64,600,000 of unlimited tax bonds authorized, but unissued, for the purposes of constructing park and recreational facilities.

Other Relevant Factors

Relationship to the City of Houston

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

Economic Dependency

The District's developers own the majority of the taxable property in the District. The District's ability to meet its obligations is dependent on the developers' ability to pay future property taxes.

Since inception, the developers have advanced \$75,000 to the District for operations. The District does not have sufficient funds nor anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

Contingencies

The developers of the District are constructing facilities on behalf of the District within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs, plus interest, from the proceeds from future bond sales, to the extent approved by the Commission, as applicable. The District's engineer has stated that current construction amounts are approximately \$5,722,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Harris County Municipal Utility District No. 569
Statement of Net Position and Governmental Fund Balance Sheet
May 31, 2022

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	\$ 11,018	\$ -	\$ 11,018
Prepaid expenditures	2,515	-	2,515
	\$ 13,533	\$ 0	\$ 13,533
Total assets	\$ 13,533	\$ 0	\$ 13,533
Liabilities			
Accounts payable	\$ 41,200	\$ -	\$ 41,200
Long-term liabilities, due after one year	-	75,000	75,000
	41,200	75,000	116,200
Total liabilities	41,200	75,000	116,200
Fund Balance/Net Position			
Fund balance (deficit):			
Nonspendable, prepaid expenditures	2,515	(2,515)	-
Unassigned fund balance (deficit)	(30,182)	30,182	-
	(27,667)	27,667	0
Total fund balance (deficit)	(27,667)	27,667	0
Total liabilities and fund balance	\$ 13,533		
Unrestricted net position		\$ (102,667)	\$ (102,667)

Harris County Municipal Utility District No. 569
Statement of Activities and Governmental Fund Revenues,
Expenditures and Changes in Fund Balance
Period From Inception (June 10, 2019) to May 31, 2022

	General Fund	Adjustments	Statement of Activities
Expenditures/Expenses			
Service operations:			
Professional fees	\$ 66,833	\$ -	\$ 66,833
Contracted services	6,802	-	6,802
Other expenditures	29,032	-	29,032
	<u>102,667</u>	<u>0</u>	<u>102,667</u>
Deficiency of Revenues Over Expenditures	<u>(102,667)</u>	<u>0</u>	
Other Financing Sources			
Developer advances received	<u>75,000</u>	<u>(75,000)</u>	
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(27,667)	27,667	
Change in Net Position		(102,667)	(102,667)
Fund Balance (Deficit)/Net Position			
Beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
End of period	<u>\$ (27,667)</u>	<u>\$ 0</u>	<u>\$ (102,667)</u>

Harris County Municipal Utility District No. 569

Notes to Financial Statements

May 31, 2022

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

Harris County Municipal Utility District No. 569 (the District), was created by House Bill No. 2671 (the Bill) of the 86th Session of the Texas Legislature of the State of Texas, effective June 10, 2019, in accordance with the provisions of Article III, Section 52, and Article XVI, Section 59, of the Texas Constitution. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and Article XVI, Section 59 of the Constitution of the State of Texas and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the Commission). The principal functions of the District are to finance, construct, own and operate waterworks, wastewater, drainage, park, road and other facilities and to provide such facilities and services to the customers of the District.

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

Reporting Entity

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

Government-wide and Fund Financial Statements

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

Harris County Municipal Utility District No. 569

Notes to Financial Statements

May 31, 2022

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

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

The District presents the following major governmental fund:

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

Fund Balance – Governmental Fund

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

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

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

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

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

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

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

Harris County Municipal Utility District No. 569
Notes to Financial Statements
May 31, 2022

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Deferred Outflows and Inflows of Resources

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

Pension Costs

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

Harris County Municipal Utility District No. 569
Notes to Financial Statements
May 31, 2022

Use of Estimates

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

Investments and Investment Income

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

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

Property Taxes

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

During the period from inception (June 10, 2019) to May 31, 2022, the District did not levy any ad valorem taxes.

Capital Assets

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

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

Harris County Municipal Utility District No. 569
Notes to Financial Statements
May 31, 2022

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

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45
Park and recreational facilities	10-30
Road and paving facilities	10-30

Long-term Obligations

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

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

Net Position/Fund Balance

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

Long-term debt obligations are not due and payable in the current period and are not reported in the fund financial statements.	<u><u>\$ (75,000)</u></u>
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Harris County Municipal Utility District No. 569
Notes to Financial Statements
May 31, 2022

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

Change in fund balance.	\$ (27,667)
Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer.	(75,000)
Change in net position of governmental activities.	\$ (102,667)

Note 2: Deposits, Investments and Investment Income

Deposits

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

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

At May 31, 2022, none of the District's bank balances were exposed to custodial credit risk.

Investments

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

Harris County Municipal Utility District No. 569
Notes to Financial Statements
May 31, 2022

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

At May 31, 2022, the District had no investments.

Note 3: Long-term Liabilities

Changes in long-term liabilities for the period from inception (June 10, 2019) to May 31, 2022, were as follows:

Governmental Activities	Balances, Beginning of Period	Increases	Balances, End of Period	Amounts Due in One Year
Due to developer - advances	\$ 0	\$ 75,000	\$ 75,000	\$ 0
Bonds voted:				
Water, sanitary sewer and drainage facilities			\$ 241,500,000	
Park and recreational facilities			64,600,000	
Road facilities			161,100,000	
Refunding bonds voted:				
Water, sanitary sewer and drainage facilities			241,500,000	
Park and recreational facilities			64,600,000	
Road facilities			161,100,000	

Note 4: Maintenance Taxes

At an election held November 2, 2021, voters authorized a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the period from inception (June 10, 2019) to May 31, 2022, the District did not levy an ad valorem maintenance tax for the 2021 tax year. The maintenance tax will be used by the general fund to pay expenditures of operating the District.

Note 5: Financing and Operation of Regional Facilities

On August 10, 2021, the District entered into a Contract for Financing, Operation and Maintenance of Regional Facilities (the Contract) with Harris-Waller Counties Municipal Utility District No. 4 (the Master District), whereby the Master District agrees to provide, or cause to be provided, the regional water, wastewater, drainage and road facilities necessary to serve all participating districts located within the Master District's service area.

Harris County Municipal Utility District No. 569
Notes to Financial Statements
May 31, 2022

The Contract authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. Prior to commencement of services, the Master District shall bill the District to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually.

Upon commencement of services, the Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection multiplied by the number of equivalent single-family connections reserved to the District. The term of the Contract is 40 years. For the period from inception (June 10, 2019) to May 31, 2022, the District did not incur any fees related to the Contract.

The Master District is authorized to issue contract revenues bonds for the purpose of acquiring and constructing regional water, wastewater, drainage and road facilities needed to provide services to all participating districts in the Master District's service area. The District shall contribute annually to the payment of debt service requirements based on its pro rata share of the total certified assessed valuation of all participating districts. As of May 31, 2022, the Master District has not issued any bonds.

Note 6: Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts since the inception of the District.

Note 7: Economic Dependency

The District's developers own the majority of the taxable property in the District. The District's ability to meet its obligations is dependent on the developers' ability to pay future property taxes.

Since inception, the developers have advanced \$75,000 to the District for operations. The District does not have sufficient funds nor anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

Note 8: Deficit Fund Balance

At May 31, 2022, the District's general fund had a deficit fund balance of \$27,667. The District anticipates that growth within the District will generate revenues sufficient to pay costs of operating the District.

Harris County Municipal Utility District No. 569

Notes to Financial Statements

May 31, 2022

Note 9: Contingencies

The developers of the District are constructing facilities on behalf of the District within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs, plus interest, from the proceeds from future bond sales, to the extent approved by the Commission, as applicable. The District's engineer has stated that current construction amounts are approximately \$5,722,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Required Supplementary Information

Harris County Municipal Utility District No. 569
Budgetary Comparison Schedule – General Fund
Period From Inception (June 10, 2019) to May 31, 2022

	Original Budget	Actual	Variance Favorable (Unfavorable)
Expenditures			
Service operations:			
Professional fees	\$ 75,000	\$ 66,833	\$ 8,167
Contracted services	3,000	6,802	(3,802)
Other expenditures	20,800	29,032	(8,232)
Total expenditures	98,800	102,667	(3,867)
Deficiency of Revenues Over Expenditures	(98,800)	(102,667)	(3,867)
Other Financing Sources			
Developer advances received	98,800	75,000	(23,800)
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	(27,667)	(27,667)
Fund Balance, Beginning of Period	-	-	-
Fund Balance (Deficit), End of Period	\$ 0	\$ (27,667)	\$ (27,667)

Harris County Municipal Utility District No. 569
Notes to Required Supplementary Information
May 31, 2022

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the period and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2022.

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

**Supplementary Information
(Not Subjected to Audit Procedures)**

Harris County Municipal Utility District No. 569
Other Schedules Included Within This Report
May 31, 2022

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

- Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 10-18
- Schedule of Services
- Schedule of General Fund Expenditures
- Schedule of Temporary Investments – Not Applicable
- Analysis of Taxes Levied and Receivable – Not Applicable
- Schedule of Long-term Debt Service Requirements by Years – Not Applicable
- Changes in Long-term Bonded Debt – Not Applicable
- Schedule of Revenues and Expenditures – General Fund
- Board Members, Key Personnel and Consultants

Harris County Municipal Utility District No. 569

Schedule of Services

Period From Inception (June 10, 2019) to May 31, 2022

1. Services to be provided by the District:

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

Harris County Municipal Utility District No. 569

Schedule of General Fund Expenditures

Period From Inception (June 10, 2019) to May 31, 2022

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	-	
Legal		50,313	
Engineering		16,520	
Financial advisor		-	66,833
		<hr/>	
Purchased Services for Resale			
Bulk water and wastewater service purchases			-
Regional Water Fee			-
Contracted Services			
Bookkeeping		6,802	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		-	6,802
		<hr/>	
Utilities			-
Repairs and Maintenance			-
Administrative Expenditures			
Directors' fees		3,900	
Office supplies		2,384	
Insurance		2,570	
Other administrative expenditures		20,178	29,032
		<hr/>	
Capital Outlay			
Capitalized assets		-	
Expenditures not capitalized		-	-
		<hr/>	
Tap Connection Expenditures			-
Solid Waste Disposal			-
Fire Fighting			-
Parks and Recreation			-
Lease Expenditures			-
		<hr/>	
Total expenditures		\$	<u>102,667</u>

Harris County Municipal Utility District No. 569
Schedule of Revenues and Expenditures – General Fund
Period From Inception (June 10, 2019) to May 31, 2022

	Amounts	Percent of Fund Total Revenues
General Fund		
Expenditures		
Service operations:		
Professional fees	\$ 66,833	- % *
Contracted services	6,802	-
Other expenditures	29,032	-
Total expenditures	102,667	0.0
Deficiency of Revenues Over Expenditures	(102,667)	0.0 %
Other Financing Sources		
Developer advances received	75,000	
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(27,667)	
Fund Balance, Beginning of Period	-	
Fund Balance (Deficit), End of Period	\$ (27,667)	
Total Active Retail Water Connections	0	
Total Active Retail Wastewater Connections	0	

*Percentages not meaningful.

Harris County Municipal Utility District No. 569
Board Members, Key Personnel and Consultants
Period From Inception (June 10, 2019) to May 31, 2022

Complete District mailing address:	Harris County Municipal Utility District No. 569 c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 2400 Houston, Texas 77056	
District business telephone number:	713.623.4531	
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	May 9, 2022	
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200	

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Jason Schultz	Elected 05/22- 05/26	\$ 750	\$ 0	President
Nicholas Luton	Elected 11/21- 05/24	750	51	Vice President
Blakely Norris	Elected 11/21- 05/24	750	0	Secretary
David Jezierski	Elected 05/22- 05/26	750	0	Assistant Secretary
Julia Pecina	Elected 11/21- 05/24	900	0	Assistant Secretary

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

Harris County Municipal Utility District No. 569
Board Members, Key Personnel and Consultants (Continued)
Period From Inception (June 10, 2019) to May 31, 2022

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Harris County Appraisal District	Legislative Action	\$ 0	Appraiser
Municipal Accounts & Consulting, L.P.	08/03/21	7,304	Bookkeeper
Municipal District Services, L.L.C.	04/11/22	0	Operator
Quiddity Engineering, LLC	08/03/21	16,520	Engineer
Robert W. Baird & Co. Incorporated	08/03/21	0	Financial Advisor
Schwartz, Page & Harding, L.L.P.	08/03/21	69,081	General Counsel
Investment Officers			
Mark Burton and Ghia Lewis	11/15/21	N/A	Bookkeepers

Waller County Municipal Utility District No. 35
Waller County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2022

Waller County Municipal Utility District No. 35
May 31, 2022

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Independent Auditor's Report

Board of Directors
Waller County Municipal Utility District No. 35
Waller County, Texas

Opinions

We have audited the financial statements of the governmental activities and general fund of Waller County Municipal Utility District No. 35 (the District), as of and for the period from inception (June 10, 2019) to May 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the District, as of May 31, 2022, and the respective changes in financial position thereof for the period from inception (June 10, 2019) to May 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance

and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information (Not Subjected to Audit Procedures)

Our audit was performed for the purpose of forming opinions on the basic financial statements as a whole. The accompanying schedules required by the Texas Commission on Environmental Quality listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

FORVIS,LLP

Houston, Texas
November 4, 2022

Waller County Municipal Utility District No. 35

Management's Discussion and Analysis

May 31, 2022

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

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

Waller County Municipal Utility District No. 35
Management's Discussion and Analysis (Continued)
May 31, 2022

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

Fund Financial Statements

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

Governmental Fund

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

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

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

Notes to Financial Statements

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

Waller County Municipal Utility District No. 35
Management's Discussion and Analysis (Continued)
May 31, 2022

Financial Analysis of the District as a Whole

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

Summary of Net Position

Current and other assets	\$ 6,488
Long-term liabilities	\$ 87,000
Other liabilities	24,873
Total liabilities	111,873
Unrestricted net position	\$ (105,385)

The total net position of the District decreased by \$105,385. The majority of the decrease in net position is related to service operations expenses incurred in the current period.

Summary of Changes in Net Position

Expenses:	
Services	\$ 105,385
Change in net position	(105,385)
Net position, beginning of period	-
Net position, end of period	\$ (105,385)

Financial Analysis of the District's Fund

The general fund's fund balance decreased by \$18,385, due to service operations expenditures exceeding developer advances received.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to professional fees expenditures and developer advances received being less than anticipated. The fund balance as of May 31, 2022, was expected to be \$0 and the actual end-of-period fund balance was \$(18,385).

Waller County Municipal Utility District No. 35
Management's Discussion and Analysis (Continued)
May 31, 2022

Long-term Liabilities

Debt

The changes in the debt position of the District during the period from inception (June 10, 2019) to May 31, 2022, are summarized as follows:

Long-term debt payable, beginning of period	\$ -
Increases in long-term debt	<u>87,000</u>
Long-term debt payable, end of period	<u>\$ 87,000</u>

At May 31, 2022, the District had \$290,905,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District, \$131,600,000 of unlimited tax bonds authorized, but unissued, for the purpose of constructing roads and \$64,650,000 of unlimited tax bonds authorized, but unissued, for the purposes of constructing park and recreational facilities.

Other Relevant Factors

Relationship to the City of Houston

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

Economic Dependency

The District's developers own the majority of the taxable property in the District. The District's ability to meet its obligations is dependent on the developers' ability to pay future property taxes.

Since inception, the developers have advanced \$87,000 to the District for operations. The District does not have sufficient funds nor anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

Waller County Municipal Utility District No. 35
Statement of Net Position and Governmental Fund Balance Sheet
May 31, 2022

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	\$ 3,972	\$ -	\$ 3,972
Prepaid expenditures	2,516	-	2,516
Total assets	\$ 6,488	\$ 0	\$ 6,488
Liabilities			
Accounts payable	\$ 24,873	\$ -	\$ 24,873
Long-term liabilities, due after one year	-	87,000	87,000
Total liabilities	24,873	87,000	111,873
Fund Balance/Net Position			
Fund balance (deficit):			
Nonspendable, prepaid expenditures	2,516	(2,516)	-
Unassigned fund balance (deficit)	(20,901)	20,901	-
Total fund balance (deficit)	(18,385)	18,385	0
Total liabilities and fund balance	\$ 6,488		
Unrestricted net position		\$ (105,385)	\$ (105,385)

Waller County Municipal Utility District No. 35
Statement of Activities and Governmental Fund Revenues,
Expenditures and Changes in Fund Balance
Period From Inception (June 10, 2019) to May 31, 2022

	General Fund	Adjustments	Statement of Activities
Expenditures/Expenses			
Service operations:			
Professional fees	\$ 70,833	\$ -	\$ 70,833
Contracted services	7,356	-	7,356
Other expenditures	27,196	-	27,196
	<u>105,385</u>	<u>0</u>	<u>105,385</u>
Deficiency of Revenues Over Expenditures	(105,385)	-	
Other Financing Sources			
Developer advances received	87,000	(87,000)	
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(18,385)	18,385	
Change in Net Position		(105,385)	(105,385)
Fund Balance (Deficit)/Net Position			
Beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
End of period	<u>\$ (18,385)</u>	<u>\$ 0</u>	<u>\$ (105,385)</u>

Waller County Municipal Utility District No. 35

Notes to Financial Statements

May 31, 2022

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

Waller County Municipal Utility District No. 35 (the District), was created by House Bill No. 3209 (the Bill) of the 86th Session of the Texas Legislature of the State of Texas, effective June 10, 2019, in accordance with the provisions of Article III, Section 52, and Article XVI, Section 59, of the Texas Constitution. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and Article XVI, Section 59 of the Constitution of the State of Texas and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the Commission). The principal functions of the District are to finance, construct, own and operate waterworks, wastewater, drainage, park, road and other facilities and to provide such facilities and services to the customers of the District.

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

Reporting Entity

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

Government-wide and Fund Financial Statements

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

Waller County Municipal Utility District No. 35

Notes to Financial Statements

May 31, 2022

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

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

The District presents the following major governmental fund:

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

Fund Balance – Governmental Fund

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

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

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

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

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

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

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

Waller County Municipal Utility District No. 35
Notes to Financial Statements
May 31, 2022

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Deferred Outflows and Inflows of Resources

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

Pension Costs

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

Waller County Municipal Utility District No. 35
Notes to Financial Statements
May 31, 2022

Use of Estimates

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

Investments and Investment Income

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

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

Property Taxes

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

During the period from inception (June 10, 2019) to May 31, 2022, the District did not levy any ad valorem taxes.

Capital Assets

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

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

Waller County Municipal Utility District No. 35
Notes to Financial Statements
May 31, 2022

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

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45
Park and recreational facilities	10-30
Road and paving facilities	10-30

Long-term Obligations

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

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

Net Position/Fund Balance

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

Long-term debt obligations are not due and payable in the current period and are not reported in the fund financial statements.	<u style="text-decoration: underline double;">\$ (87,000)</u>
---	---

Waller County Municipal Utility District No. 35
Notes to Financial Statements
May 31, 2022

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

Change in fund balance.	\$ (18,385)
Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer.	(87,000)
Change in net position of governmental activities.	\$ (105,385)

Note 2: Deposits, Investments and Investment Income

Deposits

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

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

At May 31, 2022, none of the District's bank balances were exposed to custodial credit risk.

Investments

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

Waller County Municipal Utility District No. 35
Notes to Financial Statements
May 31, 2022

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

At May 31, 2022, the District had no investments.

Note 3: Long-term Liabilities

Changes in long-term liabilities for the period from inception (June 10, 2019) to May 31, 2022, were as follows:

Governmental Activities	Balances, Beginning of Period	Increases	Balances, End of Period	Amounts Due in One Year
Due to developers - advances	\$ 0	\$ 87,000	\$ 87,000	\$ 0
Bonds voted:				
Water, sanitary sewer and drainage facilities				\$ 290,905,000
Park and recreational facilities				64,650,000
Road facilities				131,600,000
Refunding bonds voted:				
Water, sanitary sewer and drainage facilities				290,905,000
Park and recreational facilities				64,650,000
Road facilities				131,600,000

Note 4: Maintenance Taxes

At an election held November 2, 2021, voters authorized a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the period from inception (June 10, 2019) to May 31, 2022, the District did not levy an ad valorem maintenance tax for the 2021 tax year. The maintenance tax will be used by the general fund to pay expenditures of operating the District.

Note 5: Financing and Operation of Regional Facilities

On August 10, 2021, the District entered into a Contract for Financing, Operation and Maintenance of Regional Facilities (the Contract) with Harris-Waller Counties Municipal Utility District No. 4 (the Master District), whereby the Master District agrees to provide, or cause to be provided, the regional water, wastewater, drainage and road facilities necessary to serve all participating districts located within the Master District's service area.

Waller County Municipal Utility District No. 35
Notes to Financial Statements
May 31, 2022

The Contract authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. Prior to commencement of services, the Master District shall bill the District to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually.

Upon commencement of services, the Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection multiplied by the number of equivalent single-family connections reserved to the District. The term of the Contract is 40 years. For the period from inception (June 10, 2019) to May 31, 2022, the District did not incur any fees related to the Contract.

The Master District is authorized to issue contract revenues bonds for the purpose of acquiring and constructing regional water, wastewater, drainage and road facilities needed to provide services to all participating districts in the Master District's service area. The District shall contribute annually to the payment of debt service requirements based on its pro rata share of the total certified assessed valuation of all participating districts. As of May 31, 2022, the Master District has not issued any bonds.

Note 6: Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts since the inception of the District.

Note 7: Economic Dependency

The District's developers own the majority of the taxable property in the District. The District's ability to meet its obligations is dependent on the developers' ability to pay future property taxes.

Since inception, the developers have advanced \$87,000 to the District for operations. The District does not have sufficient funds nor anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

Note 8: Deficit Fund Balance

At May 31, 2022, the District's general fund had a deficit fund balance of \$18,385. The District anticipates that growth within the District will generate revenues sufficient to pay costs of operating the District.

Required Supplementary Information

Waller County Municipal Utility District No. 35
Budgetary Comparison Schedule – General Fund
Period From Inception (June 10, 2019) to May 31, 2022

	Original Budget	Actual	Variance Favorable (Unfavorable)
Expenditures			
Service operations:			
Professional fees	\$ 115,000	\$ 70,833	\$ 44,167
Contracted services	5,000	7,356	(2,356)
Other expenditures	23,700	27,196	(3,496)
Total expenditures	<u>143,700</u>	<u>105,385</u>	<u>38,315</u>
Deficiency of Revenues Over Expenditures	(143,700)	(105,385)	38,315
Other Financing Sources			
Developer advances received	<u>143,700</u>	<u>87,000</u>	<u>(56,700)</u>
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	(18,385)	(18,385)
Fund Balance, Beginning of Period	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance (Deficit), End of Period	<u>\$ 0</u>	<u>\$ (18,385)</u>	<u>\$ (18,385)</u>

Waller County Municipal Utility District No. 35
Notes to Required Supplementary Information
May 31, 2022

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the period and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2022.

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

**Supplementary Information
(Not Subjected to Audit Procedures)**

Waller County Municipal Utility District No. 35
Other Schedules Included Within This Report
May 31, 2022

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

- Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 10-17
- Schedule of Services
- Schedule of General Fund Expenditures
- Schedule of Temporary Investments – Not Applicable
- Analysis of Taxes Levied and Receivable – Not Applicable
- Schedule of Long-term Debt Service Requirements by Years – Not Applicable
- Changes in Long-term Bonded Debt – Not Applicable
- Schedule of Revenues and Expenditures – General Fund
- Board Members, Key Personnel and Consultants

Waller County Municipal Utility District No. 35

Schedule of Services

Period From Inception (June 10, 2019) to May 31, 2022

1. Services to be provided by the District:

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

Waller County Municipal Utility District No. 35
Schedule of General Fund Expenditures
Period From Inception (June 10, 2019) to May 31, 2022

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	-	
Legal		42,189	
Engineering		28,644	
Financial advisor		-	70,833
		<hr/>	
Purchased Services for Resale			
Bulk water and wastewater service purchases			-
Regional Water Fee			-
Contracted Services			
Bookkeeping		7,356	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		-	7,356
		<hr/>	
Utilities			-
Repairs and Maintenance			-
Administrative Expenditures			
Directors' fees		4,050	
Office supplies		1,904	
Insurance		2,516	
Other administrative expenditures		18,726	27,196
		<hr/>	
Capital Outlay			
Capitalized assets		-	
Expenditures not capitalized		-	-
		<hr/>	
Tap Connection Expenditures			-
Solid Waste Disposal			-
Fire Fighting			-
Parks and Recreation			-
Lease Expenditures			-
			<hr/>
Total expenditures		\$	<u>105,385</u>

Waller County Municipal Utility District No. 35
Schedule of Revenues and Expenditures – General Fund
Period From Inception (June 10, 2019) to May 31, 2022

	Amounts	Percent of Fund Total Revenues
General Fund		
Expenditures		
Service operations:		
Professional fees	\$ 70,833	- *
Contracted services	7,356	-
Other expenditures	27,196	-
Total expenditures	105,385	0.0
Deficiency of Revenues Over Expenditures	(105,385)	0.0 %
Other Financing Sources		
Developer advances received	87,000	
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(18,385)	
Fund Balance, Beginning of Period	-	
Fund Balance (Deficit), End of Period	\$ (18,385)	
Total Active Retail Water Connections	N/A	
Total Active Retail Wastewater Connections	N/A	

*Percentages not meaningful.

Waller County Municipal Utility District No. 35
Board Members, Key Personnel and Consultants
Period From Inception (June 10, 2019) to May 31, 2022

Complete District mailing address:	Waller County Municipal Utility District No. 35 c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 2400 Houston, Texas 77056	
District business telephone number:	713.623.4531	
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):		May 9, 2022
Limit on fees of office that a director may receive during a fiscal year:		\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Victoria A. Battistini	Elected 11/21- 05/24	\$ 1,200	\$ 162	President
Ryan C. Ward	Elected 11/21- 05/24	1,200	47	Vice President
Jaclyn Day	Elected 05/22- 05/26	750	103	Secretary
Daniel C. Feiler	Elected 11/21- 05/24	750	0	Assistant Secretary
Susan L. Skiles	Elected 11/21- 04/22	150	0	Resigned

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

Waller County Municipal Utility District No. 35
Board Members, Key Personnel and Consultants (Continued)
Period From Inception (June 10, 2019) to May 31, 2022

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Municipal Accounts & Consulting, L.P.	08/10/21	\$ 7,821	Bookkeeper
Municipal District Services, L.L.C.	04/11/22	0	Operator
Quiddity Engineering, LLC	08/10/21	28,644	Engineer
Robert W. Baird & Co. Incorporated	08/10/21	0	Financial Advisor
Schwartz, Page & Harding, L.L.P.	08/10/21	61,427	General Counsel
Waller County Appraisal District	Legislative Action	0	Appraiser
Investment Officers			
Mark Burton and Ghia Lewis	12/13/21	N/A	Bookkeepers

APPENDIX C

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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