

OFFICIAL STATEMENT DATED FEBRUARY 11, 2020

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

THE BONDS ARE NOT "DESIGNATED AS QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

NEW ISSUE - Book-Entry-Only

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

\$5,000,000

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
(A political subdivision of the State of Texas located within Fort Bend County)
UNLIMITED TAX BONDS, SERIES 2020

The bonds described above (the "Bonds") are obligations solely of Fort Bend County Municipal Utility District No. 206 (the "District") and are not obligations of the State of Texas, Fort Bend County, the City of Houston or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."

Dated: March 1, 2020

Due: September 1, as shown below

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar" or "Registrar/Paying Agent") upon surrender of the Bonds for payment. Interest on the Bonds accrues from March 1, 2020, and is payable each September 1 and March 1, commencing September 1, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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



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

MATURITY SCHEDULE

Due (Sept. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (Sept. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2021	\$ 125,000	4.500 %	1.20 %	34686A AA5	2029	\$ 175,000 (a)	2.000 %	1.90 %	34686A AJ6
2022	130,000	4.500	1.25	34686A AB3	2030	180,000 (a)	2.000	2.00	34686A AK3
2023	135,000	4.500	1.30	34686A AC1	2031	190,000 (a)	2.000	2.10	34686A AL1
2024	140,000	4.500	1.35	34686A AD9	2032	195,000 (a)	2.125	2.20	34686A AM9
2025	145,000	4.500	1.45	34686A AE7	2033	205,000 (a)	2.250	2.30	34686A AN7
2026	150,000 (a)	2.000	1.55	34686A AF4	2034	215,000 (a)	2.250	2.35	34686A AP2
2027	160,000 (a)	2.000	1.65	34686A AG2	2035	220,000 (a)	2.250	2.40	34686A AQ0
2028	165,000 (a)	2.000	1.75	34686A AH0	2036	230,000 (a)	2.375	2.45	34686A AR8
	\$490,000	Term Bonds due September 1, 2038 (a),		34686A AT4	(b), 2.500% Interest Rate, 2.50% Yield (c)				
	\$535,000	Term Bonds due September 1, 2040 (a),		34686A AV9	(b), 2.500% Interest Rate, 2.60% Yield (c)				
	\$580,000	Term Bonds due September 1, 2042 (a),		34686A AX5	(b), 2.625% Interest Rate, 2.65% Yield (c)				
	\$635,000	Term Bonds due September 1, 2044 (a),		34686A AZ0	(b), 2.625% Interest Rate, 2.70% Yield (c)				

- (a) Bonds maturing on or after September 1, 2026, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2025, or on any date thereafter at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson, LLP, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about March 12, 2020.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

Description...

Fort Bend County Municipal Utility District No. 206 (the “District”) is a municipal utility district created by an act of the Texas Legislature (Senate Bill No. 273, Regular Session, dated May 17, 2013). The District was created to provide water, wastewater, storm sewer and drainage utilities, as well as roadways and parks, as allowed and codified by Senate Bill 273 (Chapter 8416, Special District Local Laws). The District operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District is subject to the continuing supervisory jurisdiction of the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”). The District contains approximately 180 acres of land. See “THE DISTRICT.”

Location...

The District is located in northern Fort Bend County approximately 19 miles west of the central downtown business district of the City, of Houston, Texas (the “City”). The District lies wholly within the extraterritorial jurisdiction of the City and is within the boundaries of the Fort Bend Independent School District. The District can be accessed from the Westpark Tollway via FM 1464. See “THE DISTRICT—Description and Location” and “AERIAL PHOTO”.

Extreme Weather Events...

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to Si Environmental, LLC (the “Operator”), there was no interruption of water and sewer service as a result of Hurricane Harvey. According to Odyssey Engineering Group, LLC. (the “Engineer”) and the Operator, the District’s system did not sustain any material damage from Hurricane Harvey. To the knowledge of the Developer, no homes within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

The Developer... The developer of Camellia Sections 1 through 4 is Victorian Gardens Ltd. (“Victorian”), a Texas limited partnership. The general partner of Victorian is Camcorp Management Inc. and the limited partner is Camcorp Interests, Ltd. Victorian is referred to herein as the “Developer.” See “THE DEVELOPER.”

Legend Classic Homes, Ltd. is building homes in Camellia Sections 1, 2 and 4. The general partner of Legend Class Homes Ltd. is Legend Home Corp., which is 100% owned by Camcorp Interests, Ltd. Camillo Properties, Ltd. is building homes in Camillo, Section 3 for rental purposes. The general partner of Camillo Properties Ltd is Camillo Properties GP, Inc., which is a related entity to Camcorp Interests, Ltd. All of the above-mentioned entities have common ownership.

No landowner, developer or any of their respective affiliates, is obligated to pay any principal of or interest on the Bonds. See “RISK FACTORS— Dependence on Major Taxpayers and the Developer” and “THE DEVELOPER.”

Homebuilders... Legend Classic Homes Ltd. is building homes in Camellia Sections 2 and 4 which range in sales price from approximately \$191,990 to \$309,990. See “THE DISTRICT—Homebuilding.”

Status of Development... Development in the District consists of Camellia Sections 1 through 4, totaling 512 completed single-family residential lots on approximately 68 acres. As of January 7, 2020, there were 413 homes completed in the District (406 completed and occupied and 7 completed and unoccupied), 89 homes under construction and 10 developed lots available for home construction. Of the 413 completed homes, 114 are leased homes in Camellia, Section 3.

A convenience store is under construction on approximately 2 acres of land in the District. The first phase of an apartment complex (408 units) is under construction on approximately 26 acres of land and is expected to be completed in early 2021.

There is no additional acreage in the District which remains to be developed. Approximately 84 acres in the District are not developable, including major streets, pipeline easements, plant sites, detention, drill sites, recreational sites and open space. See “THE DISTRICT—Land Use—Status of Development.”

Payment Record... The District has no prior debt history. The District will capitalize twenty-one (21) months of interest. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED).”

Future Debt... The District has authorized the preparation of a bond application to the TCEQ in the principal amount of approximately \$7,500,000. The District expects approval by the TCEQ in 2020 and sale of such bonds in the fourth quarter of 2020. See “THE BONDS—Issuance of Additional Debt” and “RISK FACTORS—Future Debt.”

THE BONDS

Description... \$5,000,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”) are being issued pursuant to a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the District’s Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature serially on September 1 in each of the years 2021 through 2036, both inclusive, and as term bonds on September 1 in each of the years 2038, 2040, 2042 and 2044 (the “Term Bonds”) in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from March 1, 2020, and is payable September 1, 2020, and each March 1 and September 1 thereafter, until the earlier of maturity or redemption. See “THE BONDS.”

<i>Book-Entry-Only System...</i>	The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully- registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY-SYSTEM.”
<i>Redemption...</i>	Bonds maturing on or after September 1, 2026 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2025, or on any date thereafter at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds of the Bonds will be used to reimburse the Developer for construction costs, to pay interest on funds advanced by the Developer on behalf of the District, to capitalize twenty-one (21) months of interest on the Bonds and to pay costs of issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “THE SYSTEM.”
<i>Authority for Issuance...</i>	The Bonds are being issued out of an aggregate of \$59,750,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of purchasing and constructing water, sewer and drainage facilities and refunding of such bonds. The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code. See “THE BONDS—Authority for Issuance—Issuance of Additional Debt” and “RISK FACTORS—Future Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the City, Fort Bend County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Assurance Company (“BAM” or the “Insurer”). An explanation of their ratings may be obtained from S&P. The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX C.”
<i>Not Qualified Tax-Exempt Obligations</i>	The Bonds are not designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “LEGAL MATTERS,” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas.
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton, LLP, Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

RISK FACTORS

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

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2019 Taxable Assessed Valuation	\$54,737,243 (a)
Estimated Taxable Assessed Valuation as of September 1, 2019	\$97,550,896 (b)
Gross Direct Debt Outstanding (after the issuance of the Bonds)	\$5,000,000
Estimated Overlapping Debt	<u>1,895,724 (c)</u>
Gross Direct Debt and Estimated Overlapping Debt	\$6,895,724
Ratios of Gross Direct Debt to:	
2019 Taxable Assessed Valuation	9.13%
Estimated Taxable Assessed Valuation as of September 1, 2019	5.13%
Ratios of Total Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Taxable Assessed Valuation	12.60%
Estimated Taxable Assessed Valuation as of September 1, 2019 Valuation	7.07%
Operating Fund Balance as of January 14, 2020.....	\$148,110
Debt Service Funds Available as of March 12, 2020.....	\$231,525 (d)
2019 Tax Rate:	
Maintenance and Operations (Water, sewer and drainage).....	\$1.40
Maintenance and Operations (Roads)	<u>0.10</u>
Total	\$1.50
Maximum Annual Debt Service Requirements (2044) of the Bonds and the Outstanding Bonds (“Maximum Requirement”)	\$333,531 (e)
Average Annual Debt Service Requirements (2020-2044) of the Bonds and the Outstanding Bonds (“Average Annual Requirement”)	\$274,783 (e)
Tax rate required to pay Maximum Annual Requirement based upon:	
2019 Taxable Assessed Valuation at a 95% collection rate	\$0.65
Estimated Taxable Assessed Valuation as of September 1, 2019 at a 95% collection rate	\$0.36
Tax rate required to pay Average Annual Requirement based upon:	
2019 Taxable Assessed Valuation at a 95% collection rate	\$0.53
Estimated Taxable Assessed Valuation as of September 1, 2019 at a 95% collection rate	\$0.30
Status of Development as of January 7, 2020 (f):	
Homes Completed (406 completed and occupied, 7 completed and unoccupied)	413
Homes Under Construction.....	89
Lots Available for Home Construction	10
Estimated Population	1,445 (g)

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

(b) As estimated by the Appraisal District as of September 1, 2019, for informational purposes only. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and therefore this estimate will not be the basis for any tax levy by the District. The 2019 Taxable Assessed Valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2019 to September 1, 2019. See “TAXING PROCEDURES.”

(c) See “ESTIMATED OVERLAPPING DEBT STATEMENT.”

(d) Twenty-one (21) months interest will be capitalized from Bond Proceeds. In addition, accrued interest on the Bonds from their dated date to the date of delivery will be deposited to the Bond Fund. Neither Texas law nor the Bond Resolution requires that the District maintain any particular balance in the Debt Service Fund.

(e) See “DEBT SERVICE REQUIREMENTS.”

(f) See “THE DISTRICT-Land Use-Status of Development.”

(g) Based upon 3.5 persons per occupied single-family.

OFFICIAL STATEMENT

\$5,000,000

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
(A political subdivision of the State of Texas located within Fort Bend County)

UNLIMITED TAX BONDS
SERIES 2020

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Fort Bend County Municipal Utility District No. 206 (the “District”) of its \$5,000,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”), an order of the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”) and an election held within the District.

This Official Statement includes descriptions, among others, of the Bonds and a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”), and certain other information about the District and Victorian Gardens Ltd. (“Victorian” or the “Developer.”) All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

RISK FACTORS

General

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

Extreme Weather Events

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

According to the Operator, there was no interruption of water and sewer service as a result of Hurricane Harvey. According to the Engineer and Operator, the District’s system did not sustain any material damage from Hurricane Harvey. To the knowledge of the Developer, no homes within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

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

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See “THE DISTRICT—Status of Development.”

Credit Markets and Liquidity in the Financial Markets

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 development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 19 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and decline in the nation’s real estate and financial markets could affect development and home-building plans in the District and restrain the growth of or reduce the District’s property tax base.

Competition

The demand for and construction of single-family homes in the District, which is approximately 19 miles from the central downtown business district of the City of Houston, could be affected by competition from other residential developments including other residential developments located in the western portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer and its affiliates in the sale of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Landowner Obligation to the District

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

Rental Homes

The homes being constructed in Camellia Section 3 are being constructed by Camillo Properties, Ltd., as rental properties. According to the Engineer, there are approximately 119 total homes in Camellia Section 3. It is anticipated that Camillo Properties, Ltd. will continue to own all of the homes constructed in Camellia Section 3 and will continue to be a principal taxpayer. On the 2019 certified tax roll, Camillo Properties, Ltd. represented \$6,715,930 of the District's 2019 certified taxable assessed value, which represents 12.27% of the total certified 2019 taxable assessed value. See "TAX DATA—Principal Taxpayers."

Camillo Properties, Ltd., as the owner of the homes in Camellia Section 3, is responsible for the payment of property taxes, maintenance of the homes and the landscape maintenance of the front yards.

Maximum Impact on District Tax Rate

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2019 Taxable Assessed Valuation is \$54,737,243. After issuance of the Bonds, the maximum annual debt service requirement on the Bonds will be \$333,531 (2044) and the average annual debt service requirement on the Bonds will be \$274,783 (2020-2044). Assuming no increase or decrease from the 2019 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.65 and \$0.53 per \$100 of assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and average annual debt service requirement, respectively. The Estimated Assessed Value as of September 1, 2019 is \$97,550,896. Assuming no increase or decrease from the Estimated Assessed Value as of September 1, 2019, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.36 and \$0.30 per \$100 of assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and average annual debt service requirement, respectively. See "DEBT SERVICE REQUIREMENTS."

Although calculations have been made regarding the tax rate necessary to pay the maximum and average annual debt service on the Bonds based upon the 2019 Taxable Assessed Valuation or the Estimated Assessed Value as of September 1, 2019, the District can make no representations regarding the future level of assessed valuation within the District. See "TAXING PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

Dependence on Major Taxpayers and the Developer

The ten principal taxpayers represent \$15,075,860 or approximately 27.54% of the 2019 Taxable Assessed Valuation of \$54,737,243 which represents ownership as of January 1, 2019. The principal taxpayer within the District is Camillo Properties Ltd., which represents approximately 12.27% (\$6,715,930) of the 2019 Taxable Assessed Valuation. The second largest taxpayer is Legend Classic Homes Ltd., which represents approximately 6.00% (\$3,286,070) of the 2019 Taxable Assessed Valuation. The third largest taxpayer is the Developer, which represents approximately 3.65% (1,995,400) of the 2019 Taxable Assessed Valuation. All of the above-mentioned entities have common ownership. See "THE DISTRICT—Status of Development," "THE DEVELOPER" and "TAX DATA—Principal Taxpayers." If a principal taxpayer were to default in the payment of taxes in an amount which exceeds the balance in the District's Debt Service Fund, the ability of the District to make timely payment of debt service on the Bonds would be dependent on the ability of the District to enforce and liquidate its tax lien, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in the District being forced to set an excessive tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its Debt Service Fund. See "Tax Collections Limitations and Foreclosure Remedies" in this section, "TAXING PROCEDURES—Levy and Collection of Taxes."

Environmental Regulations

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

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

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

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

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

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court’s ruling, the TCEQ has developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB Area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB Area is currently designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

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

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

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

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

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

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

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

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR will become effective 60 days after the date of its publication in the Federal Register, and will likely become the subject of further litigation.

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

Tax Collections Limitations and Foreclosure Remedies

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

taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

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

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of \$59,750,000 principal amount of unlimited tax bonds for purchasing and constructing water, sewer and drainage facilities and refunding of such bonds, \$7,100,000 principal amount of unlimited tax bonds for purchasing and constructing parks and recreational facilities and refunding of such bonds, and \$38,250,000 principal amount of unlimited tax bonds for purchasing and constructing road facilities and refunding of such bonds has been authorized by voters in the District. After issuance of the Bonds, \$54,750,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities and refunding of such bonds will remain authorized but unissued; all of the authorized bonds for park and recreational facilities and refunding of such bonds will remain authorized but unissued; and all of the authorized bonds for road facilities and refunding of such bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional bonds or obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. After reimbursement from the Bonds, the Developer will have expended approximately \$15,000,000 as of December 31, 2019 for design, construction, engineering and acquisition of District water, wastewater and storm drainage facilities and road and recreational facilities for which they have not been reimbursed. The District has authorized the preparation of a bond application to the TCEQ in the principal amount of approximately \$7,500,000. The District expects approval by the TCEQ in 2020 and sale of such bonds in the fourth quarter of 2020. See "THE BONDS—Issuance of Additional Debt."

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds (except bonds for road facilities and refunding bonds) is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. Further, the outstanding principal amount of bonds, or other obligations, issued to finance parks and recreational facilities may not exceed 1% of the District's taxable value. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

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

Marketability of the Bonds

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

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

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

Continuing Compliance with Certain Covenants

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

Changes in Tax Legislation

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

THE BONDS

Description

The Bonds will be dated and accrue interest from March 1, 2020, with interest payable each September 1 and March 1, beginning September 1, 2020 (the "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

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

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

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants in the Bond Resolution to levy a continuing direct annual ad valorem tax, without legal limit as to rate or amount, upon all taxable property in the District sufficient to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

Funds

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

Accrued interest on the Bonds and twenty-one (21) months of capitalized interest shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund to be used for the purpose of reimbursing the Developer for operating costs and certain construction costs, paying interest on such reimbursement and for paying the costs of issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS" and "THE SYSTEM".

Redemption Provisions

Mandatory Redemption: The Bonds maturing on September 1 in each of the years 2038, 2040, 2042 and 2044 (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced, at the option of the District, by the principal amount as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below):

\$490,000 Term Bonds		\$535,000 Term Bonds	
Due September 1, 2038		Due September 1, 2040	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2037	\$ 240,000	2039	\$ 260,000
2038 (maturity)	250,000	2040 (maturity)	275,000

\$580,000 Term Bonds		\$635,000 Term Bonds	
Due September 1, 2042		Due September 1, 2044	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2041	\$ 285,000	2043	\$ 310,000
2042 (maturity)	295,000	2044 (maturity)	325,000

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 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.

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on September 1, 2025, or any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption.

If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

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

Authority for Issuance

At a bond election held within the District, voters of the District authorized the issuance of \$59,750,000 principal amount of unlimited tax bonds for purchasing and constructing water, sewer and drainage facilities and refunding of such bonds. The Bonds are being issued pursuant to such authorization.

The TCEQ has approved the sale of the Bonds subject to certain restrictions, including the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS".

The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, and an election held within the District.

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

Registration and Transfer

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

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

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

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on the 15th calendar day of the month next preceding an Interest Payment Date and ending on the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

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

Lost, Stolen or Destroyed Bonds

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

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

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the TCEQ (other than road bonds and refunding bonds), necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the issuance of \$59,750,000 principal amount of unlimited tax bonds for purchasing and constructing water, sewer and drainage facilities and refunding of such bonds, \$7,100,000 principal amount of unlimited tax bonds for purchasing and constructing parks and recreational facilities and refunding of such bonds, and \$38,250,000 principal amount of unlimited tax bonds for purchasing and constructing road facilities and refunding of such bonds. After issuance of the Bonds, \$54,750,000 principal amount of unlimited tax bonds will remain authorized but unissued for purchasing and constructing water, sewer and drainage facilities and refunding of such bonds, all of the authorized bonds for purchasing and constructing park and recreational facilities and refunding of such bonds will remain authorized but unissued, and all of the authorized bonds for purchasing and constructing road facilities and refunding of such bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. After reimbursement from the Bonds, the Developer will have expended approximately \$15,000,000 as of December 31, 2019 for design, construction, engineering and acquisition of District water, sewer and drainage facilities and road and recreational facilities for which they have not been reimbursed. The District has authorized the preparation of a bond application to the TCEQ in the principal amount of approximately \$7,500,000. The District expects approval by the TCEQ in 2020 and sale of such bonds in the fourth quarter of 2020. See "RISK FACTORS—Future Debt."

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

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District. However, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation.

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

Consolidation

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on

property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See “RISK FACTORS—Registered Owners' Remedies and Bankruptcy Limitations.”

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P Global Ratings' rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Odyssey Engineering Group, LLC., the District's engineer (the "Engineer"), and were submitted to the TCEQ in the District's Bond Application. A portion of the proceeds from the sale of the Bonds will be used to pay for the construction costs associated with the items shown below and to pay certain non-construction costs associated with the issuance of the Bonds. Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and Masterson Advisors LLC (the "Financial Advisor"). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and review by the District's auditor.

CONSTRUCTION COSTS

Camellia Water Supply and Re-Pump Facility	\$	2,945,613
Land Acquisition Costs		29,533
Engineering and Testing		368,439
		368,439

Total Construction Related Costs **\$ 3,343,585**

NON-CONSTRUCTION COSTS

Legal Fees	\$	100,000
Fiscal Agent Fees		95,000
Capitalized Interest (21 Months) (b)		231,525
Developer Interest		475,114
Attorney General Fee		5,000
Bond Discount (a)		131,492
Bond Issuance Costs		54,814
TCEQ Bond Issuance Fees		12,500
Bond Application Report Costs		35,000
Operating Costs		238,497
District Creation Costs		118,615
Contingency (b)		158,859
		158,859

Total Nonconstruction Costs **\$ 1,656,415**

TOTAL BOND ISSUE **\$ 5,000,000**

- (a) The TCEQ approved a maximum 3.0% Underwriter's discount.
- (b) Represents surplus funds resulting from the sale of the Bonds at a lower bond discount than estimated and the difference in estimated and actual amount of Capitalized Interest on the Bonds, and can be used for purposes allowed and approved by the TCEQ.

In the event approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses in accordance with the rules of the Commission. In the event actual costs exceed previously approved estimated amounts and contingencies, additional Commission approval and the issuance of additional bonds may be required.

THE DISTRICT

General

The District is a municipal utility district created by an act of the Texas Legislature (Senate Bill No. 273, Regular Session, dated May 17, 2013). The District operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston (the “City”), is subject to the continuing supervisory jurisdiction of the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”). The District contains approximately 180 acres of land.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water; and the provision of parks and recreational facilities. The District is also empowered to construct thoroughfare, arterial and collector roads and improvements in aid thereof. The District may issue bonds and other forms of indebtedness to purchase or construct all of such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts after approval by the TCEQ and the voters of the District.

The Commission exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City of Houston which, along with Texas law, limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, drainage, road, recreational, and fire-fighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; and require certain public facilities to be designed in accordance with applicable City standards. Construction and operation of the District’s system are subject to the regulatory jurisdiction of additional government agencies. See “THE SYSTEM—Regulation.”

Description and Location

The District is located in north Fort Bend County approximately 19 miles west of the central downtown business district of the City. The District lies wholly within the extraterritorial jurisdiction of the City and is within the boundaries of the Fort Bend Independent School District. The District can be accessed from the Westpark Tollway via FM 1464. See “AERIAL LOCATION MAP.”

Land Use

The following table has been provided by the Engineer and represents the current land use within the District.

<u>Single-Family Residential</u>	Approximate <u>Acres</u>	<u>Lots</u>
Camellia, Section 1.....	27	183
Camellia, Section 2.....	21	140
Camellia, Section 3.....	11	119
Camellia, Section 4.....	9	70
Subtotal.....	68	512
<i>Camellia Apartments</i>	26	---
<i>Convenience Store and gas station</i>	2	---
<i>Undevelopable (a)</i>	84	---
	180	512

(a) Includes public rights-of-way, detention, open spaces, easements, recreation and utility sites.

Status of Development

Development within the District currently includes the residential subdivisions shown above under “Land Use”. As of January 7, 2020, there were 413 homes completed in the District (which includes 406 completed and occupied and 7 completed and unoccupied), 89 homes under construction and 10 developed lots available for home construction. Homes constructed within the District range in price from approximately \$191,990 to \$309,990 (including the lot).

The homes that have been constructed in Camellia Section 3 have been constructed as rental properties.

A convenience store is under construction on approximately 2 acres of land. The first phase of an apartment complex (408 units) is under construction on approximately 26 acres of land and is expected to be completed in early 2021.

Homebuilding

Legend Classic Homes is building homes in Camellia Sections 2 and 4 which range in sales price from \$191,990 to \$309,990.

Future Development

There is no additional acreage in the District which remains to be developed. Approximately 84 acres in the District that are not developable, including major streets, pipeline easements, plant sites, detention, drill sites, recreational sites and open space. The Engineer has stated that under current development plans, the remaining principal amount of authorized but unissued bonds for water, sewer and drainage facilities and refunding of same (\$54,750,000) should be sufficient to finance the construction of facilities to complete the District's water, sewer and drainage system for full development of the District. See "RISK FACTORS" and "THE SYSTEM."

THE DEVELOPER

Role of a Developer

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave streets in areas where utilities are to be financed by a district through a specified bond issue, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

Neither the Developer nor any of its affiliates, are obligated to pay principal of or interest on the Bonds. Furthermore the Developer has a binding commitment to the District to carry out any plan of development and may sell or otherwise dispose of its property within the District, or any other assets, at any time, and the furnishing of information relating to Developer should not be interpreted as such a commitment. Prospective Bond purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the boundaries of the District. See "RISK FACTORS."

Prospective Bond purchasers should note that any prior real estate experience discussed below of the Developer should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. See "RISK FACTORS."

Victorian Gardens, Ltd.

The developer of Camellia Sections 1 through 4 is Victorian Gardens Ltd. ("Victorian" or the "Developer"). Camcorp Management Inc., a Texas corporation, is the general partner and Camcorp Interests, Ltd. a Texas limited partnership, is the limited partner of Victorian. Victorian's only assets are the lots it owns in the District. Victorian owns no undeveloped land in the District. Legend Classic Homes, Ltd is building homes in Camellia Sections 1, 2 and 4. Camillo Properties, Ltd. has built all of the homes in Camellia Section 3.

The general partner of Legend Classic Homes Ltd. is Legend Home Corp., which is 100% owned by Camcorp Interests, Ltd. Camillo Properties, Ltd. has built homes for rental purposes in the District in Camellia Section 3. The general partner of Camillo Properties, Ltd. is Camillo Properties GP Inc., which is a related company to Camcorp Management Inc. All current development activities within the District are funded by Victorian through Camcorp Interests, Ltd. Camcorp Interests, Ltd., through other limited partnerships, has developed subdivisions including, but not limited to, Windsor Park Estates, Katy Creek Ranch, Austinville, Camillo Lakes, Marcello Lakes, Treviso Gardens and Bear Creek Meadows.

For more information concerning Victorian's general partner, Camcorp Interests, Ltd., see "APPENDIX B—Financial Information Concerning the Developer." The Developer is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District, and the inclusion of the Developer's financial statements and description of its financial arrangements herein should not be construed as an implication to that effect. The Developer has no legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the Developer's financial condition is subject to change at any time. Because of the foregoing, financial information concerning the Developer will neither be updated nor provided following issuance of the Bonds, except as described herein under "CONTINUING DISCLOSURE OF INFORMATION." See "RISK FACTORS—Dependence on Major Taxpayers and the Developer."

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held in May in even numbered years only. None of the members of the Board reside in the District; however, all of the members own land within the District, subject to a note and deed of trust in favor of the Developer. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robin Stoner	President	May 2022
Amy Rozell	Vice President	May 2020
Michael H. Arterburn	Secretary	May 2022
Kathrin Yokubaitis	Asst. Secretary	May 2020
Sandra Weider	Asst. Vice President/Asst. Secretary	May 2020

District Consultants

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

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's Bonds. The legal fees to be 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.

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

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

Engineer: The District's consulting engineer is Odyssey Engineering Group, LLC.

Bookkeeper: The District contracts with Municipal Accounts & Consulting, L.P. (the "Bookkeeper") for bookkeeping services for the District.

Utility System Operator: The District contracts with Si Environmental, LLC for maintenance and operation of the District's system (the "Operator").

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

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the District's assessed valuations and certain other historical data concerning tax rates and tax collections has been provided by Bob Leared Interests and is included herein in reliance upon the authority of such firm as an expert in assessing property values and collecting taxes.

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

THE SYSTEM

Regulation

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

Water, Sanitary Sewer and Drainage Facilities

Source of Water Supply: The District owns and operates its own water plant. The water plant includes a 1,365 gallon per minute ("gpm") water well, a 20,000 gallon pressure tank, a 200,000 gallon ground storage tank and booster pump capacity of 1,295 gpm. The District is also served by a surface water supply line from the North Fort Bend Water Authority (the "Authority"). According to the Engineer, the District's current water supply is sufficient to serve 647 single family connections.

Subsidence and Conversion to Surface Water Supply: The District is within the boundaries of the Fort Bend Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 2005, the Texas legislature created the Authority to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Fort Bend County (including the District) and a small portion of Harris County. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District is included within the Authority's GRP.

The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees imposed on the District for groundwater pumped by the District), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District, and a fee per 1,000 gallons based on the amount of surface water received from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2025 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP, beginning in the year 2014; and (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP, beginning in the year 2025. If the Authority fails to comply with the above Subsidence District regulations, the Authority is subject to a disincentive fee penalty of \$6.50 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 40% of the total annual water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the District.

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

Wastewater Treatment: The District’s wastewater treatment is provided by the District’s 150,000 gallons per day (“gpd”) wastewater treatment plant operated by the District. According to the Engineer, the District’s present capacity is sufficient to serve 500 equivalent single-family connections (“esfcs”), based upon 300 gpd per single family connection. Phase 2 of the wastewater treatment plant is currently being designed. When completed, the expansion will add an additional 150,000 gpd of capacity which will serve an additional 500 esfcs.

Internal Water Distribution, Wastewater Collection and Storm Drainage Facilities

Internal water distribution, wastewater collection and storm drainage facilities have been constructed by the District to serve 512 single-family residential lots and 200 ESFCs of multi-family and commercial development.

Storm Water Drainage Facilities and Flood Plain

The natural storm water drainage flows to the existing West Keegans Bayou Improvement District Channel named Keegans Bayou, which is located along the northern boundary of the District and flows from west to east. Property within the District located south of the channel flows from the south to the north. The southernmost part of the District utilizes a series of low impact development rain gardens to detain developed flow and convey it north to a series of interconnected detention basins that ultimately discharge into Keegans Bayou.

Areas that have been developed within the District include storm water collection facilities. These facilities include a low impact development raingarden system with storm sewer and a storm sewer with inlet collection system that has been designed to convey from the development to the channel during a rain event as required by Fort Bend County Drainage District and the City of Houston. The one-hundred year rain event is conveyed through the storm sewer system with any excess storm flows conveyed over the paved streets pavement design which includes cascading high and low points to an extreme event outfall which allows all overland flow to be conveyed into the detention system which ultimately discharges to Keegans Bayou.

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is 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, no areas in the District are located within the 100-year flood plain. See “RISK FACTORS—Recent Extreme Weather Events.”

The Federal Emergency Management Agency is in a process to remap the Special Flood Hazard Area (SFHA) (commonly referred to as the 100-year flood plain elevation) and create a new digital Flood Insurance Rate Map (DFIRM) in Fort Bend County. Preliminary DFIRM maps have been released, and no changes were made to the 100-year flood plain within the District. The Preliminary Flood Insurance Study report is subject to public comment, revisions and changes. Although no changes are anticipated within the District, if the final study concludes that the level of the 100-year flood plain is substantially higher than current standards, land currently mapped outside the floodplain could be remapped inside the floodplain and remedial actions may be required that could have a material adverse impact on the District. Remedial actions could require the removal of property from the floodplain by way of channel or other improvements and the issuance of additional debt by the District.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Taxable Assessed Valuation	\$54,737,243 (a)
Estimated Taxable Assessed Valuation as of September 1, 2019	\$97,550,896 (b)
Gross Direct Debt Outstanding (after the issuance of the Bonds)	\$5,000,000
Estimated Overlapping Debt	<u>1,895,724 (c)</u>
Gross Direct Debt and Estimated Overlapping Debt	\$6,895,724
Ratios of Gross Direct Debt to:	
2019 Taxable Assessed Valuation	9.13%
Estimated Taxable Assessed Valuation as of September 1, 2019	5.13%
Ratios of Total Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Taxable Assessed Valuation	12.60%
Estimated Taxable Assessed Valuation as of September 1, 2019 Valuation	7.07%

- (a) As certified by the Fort Bend Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
 (b) As estimated by the Appraisal District as of September 1, 2019, for informational purposes only. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and therefore this estimate will not be the basis for any tax levy by the District. The 2019 Taxable Assessed Valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2019 to September 1, 2019. See "TAXING PROCEDURES."
 (c) See "ESTIMATED OVERLAPPING DEBT STATEMENT."

Cash and Investment Balances (unaudited as of January 14, 2020)

Operating Fund Balance as of January 14, 2020	\$148,110
Debt Service Funds Available as of March 12, 2020	\$231,525 (a)

- (a) Twenty-one (21) months interest will be capitalized from Bond Proceeds. In addition, accrued interest on the Bonds from their dated date to the date of delivery will be deposited to the Bond Fund. Neither Texas law nor the Bond Resolution requires that the District maintain any particular balance in the Debt Service Fund.

District Investment Policy

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

ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Fort Bend County.....	\$ 594,872,527	12/31/2019	0.08%	\$ 475,898
Fort Bend County Drainage District.....	-	12/31/2019	0.08%	-
Fort Bend County ESD No. 5.....	-	12/31/2019	1.11%	-
West Keegans Bayou Improvement District.....	-	12/31/2019	4.19%	-
Fort Bend ISD.....	1,092,173,767	12/31/2019	0.13%	1,419,826
Total Estimated Overlapping Debt.....				\$ 1,895,724
The District.....	5,000,000 (a)	Current	100.00%	5,000,000
Total Direct and Estimated Overlapping Debt...				\$ 6,895,724
Ratio of Estimated Direct and Overlapping Debt to 2019 Certified Taxable Assessed Valuation.....				12.60%
Ratio of Estimated Direct and Overlapping Debt to September 1, 2019 Estimated Assessed Valuation.....				7.07%

(a) Includes the Bonds.

Overlapping Taxes

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

Set forth below is a summary of taxes levied for the 2019 tax year by all entities overlapping the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	2019 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Fort Bend County (a).....	\$ 0.46000
Fort Bend ISD.....	1.27000
West Keegans Bayou Improvement District....	0.09400
Fort Bend Co. ESD No. 5.....	0.10000
Total Overlapping Tax Rate.....	\$ 1.92400
The District.....	1.50000
Total Tax Rate.....	\$ 3.42400

(a) Includes Fort Bend County Drainage District.

DISTRICT OPERATIONS

General

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

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and, in all instances, exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for the fiscal years ended July 31, 2016 through 2019 and an unaudited summary for the period August 1, 2019 through December 31, 2019, prepared by the Bookkeeper. Reference is made to such records and statements for further and more complete information.

	Unaudited 8/1/19 thru				
	<u>12/31/2019 (a)</u>	<u>7/31/2019</u>	<u>7/31/2018</u>	<u>7/31/2017</u>	<u>7/31/2016</u>
Revenues					
Property Taxes	\$ 32,186	\$ 430,971	\$ 201,341	\$ 103,881	\$ 43,172
Water Service	77,518	103,415	46,631	16,005	9,288
Sewer Service	115,662	168,134	67,967	18,350	11,570
Regional Water Fees	79,655	69,211	27,293	7,481	1,725
Tap Connection & Inspection Fees	104,120	448,120	103,659	43,580	40,080
Penalty and Interest	8,095	9,218	1,402	141	37
Investment Income	2,152	170	-	55	26
Other Income	8,349	32,431	5,319	1,990	1,300
Total Revenues	<u>\$ 427,736</u>	<u>\$ 1,261,670</u>	<u>\$ 453,612</u>	<u>\$ 191,483</u>	<u>\$ 107,198</u>
Expenditures					
Regional Water Fees	\$ 91,690	\$ 55,764	\$ 73,935	\$ 44,202	\$ 10,550
Professional Fees	104,686	98,396	57,730	124,715	111,170
Contracted Services	152,640	110,188	79,306	53,620	38,483
Purchased Water Service	-	48,172	-	232	25,747
Utilities	20,727	49,432	45,356	29,793	24,675
Repairs and Maintenance	75,727	320,602	290,567	225,834	42,707
Other Expenditures	95,124	282,348	124,894	133,046	74,442
Capital Outlay	-	260,952			
Debt Service Capital Lease Payments	-	103,500	138,000	138,000	138,000
Total Expenditures	<u>\$ 540,594</u>	<u>\$ 1,329,354</u>	<u>\$ 809,788</u>	<u>\$ 749,442</u>	<u>\$ 465,774</u>
Revenues Over (Under) Expenditures	<u>\$ (112,858)</u>	<u>\$ (67,684)</u>	<u>\$ (356,176)</u>	<u>\$ (557,959)</u>	<u>\$ (358,576)</u>
Other Sources (Uses)					
Developer Operating Advances	0	90,000	388,000	541,500	412,000
Total Other Financing Sources	<u>\$ -</u>	<u>\$ 329,138</u>	<u>\$ 388,000</u>	<u>\$ 541,500</u>	<u>\$ 412,000</u>
Fund Balance (Beginning of Year)	<u>\$ 304,613</u>	<u>\$ 43,159</u>	<u>\$ 11,335</u>	<u>\$ 27,794</u>	<u>\$ (25,630)</u>
Fund Balance (End of Year)	<u>\$ 191,755</u>	<u>\$ 304,613</u>	<u>\$ 43,159</u>	<u>\$ 11,335</u>	<u>\$ 27,794</u>

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

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service on the Bonds.

Year	Debt Service on the Bonds			Total Debt Service Requirements
	Principal	Interest	Total	
2020		\$ 66,150	\$ 66,150	66,150
2021	\$ 125,000	132,300	257,300	257,300
2022	130,000	126,675	256,675	256,675
2023	135,000	120,825	255,825	255,825
2024	140,000	114,750	254,750	254,750
2025	145,000	108,450	253,450	253,450
2026	150,000	101,925	251,925	251,925
2027	160,000	98,925	258,925	258,925
2028	165,000	95,725	260,725	260,725
2029	175,000	92,425	267,425	267,425
2030	180,000	88,925	268,925	268,925
2031	190,000	85,325	275,325	275,325
2032	195,000	81,525	276,525	276,525
2033	205,000	77,381	282,381	282,381
2034	215,000	72,769	287,769	287,769
2035	220,000	67,931	287,931	287,931
2036	230,000	62,981	292,981	292,981
2037	240,000	57,519	297,519	297,519
2038	250,000	51,519	301,519	301,519
2039	260,000	45,269	305,269	305,269
2040	275,000	38,769	313,769	313,769
2041	285,000	31,894	316,894	316,894
2042	295,000	24,413	319,413	319,413
2043	310,000	16,669	326,669	326,669
2044	325,000	8,531	333,531	333,531
Total	\$ 5,000,000	\$ 1,869,569	\$ 6,869,569	\$ 6,869,569

Maximum Annual Debt Service Requirement (2044) \$333,531
 Average Annual Debt Service Requirements (2020-2044) \$274,783

TAX DATA

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See “Historical Tax Rate Distribution” and “Tax Roll Information” below, “TAXING PROCEDURES” and “RISK FACTORS—Maximum Impact on Tax Rate.”

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District’s improvements, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted on November 5, 2013 and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.40 per \$100 appraised valuation for maintenance and operation of water, sewer, drainage, \$0.10 for maintenance and operation of park/recreational facilities and \$0.10 for maintenance and operation of road facilities. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. For the 2019 tax year, the District levied a tax for maintenance and operations of water, sewer and drainage facilities in the amount of \$1.40 per \$100 assessed valuation and for maintenance and operations of road facilities in the amount of \$0.10. See “Debt Service Tax” above.”

Historical Tax Rate Distribution

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -
Water, Sewer and Drainage Maintenance and Operations	1.40	1.40	1.40	1.40	1.40
Road Maintenance and Operations	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>	<u>-</u>
Total	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.40

Additional Penalties

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

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below.

<u>Tax Year</u>	<u>Taxable Assessed Valuation</u>	<u>Tax Rate</u>	<u>Total Tax Levy</u>	<u>Total Collections as of December 31, 2019 (a)</u>	
				<u>Amount</u>	<u>Percent</u>
2015	\$ 3,083,710	\$ 1.40	\$ 43,172	\$ 43,172	100.00%
2016	6,925,373	1.50	103,881	103,881	100.00%
2017	13,440,297	1.50	201,604	201,604	100.00%
2018	29,078,360	1.50	436,175	436,175	100.00%
2019	54,737,243	1.50	821,059	(b)	(b)

(a) Unaudited.

(b) In process of collection.

Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate. See "TAXING PROCEDURES—Valuation of Property for Taxation". The following represents the composition of property comprising the 2015 through 2019 Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. A breakdown of the Estimated Taxable Assessed Valuation as of September 1, 2019 is not available.

	2019	2018	2017	2016	2015
Land	\$ 17,138,530	\$ 11,856,760	\$ 6,686,500	\$ 5,927,790	\$ 3,180,660
Improvements	37,504,630	17,367,580	6,770,490	1,020,610	-
Personal Property	62,540	81,130	86,960	78,130	-
Exemptions	(261,407)	(227,110)	(103,653)	(101,157)	(96,950)
Total	<u>\$ 54,444,293</u>	<u>\$ 29,078,360</u>	<u>\$ 13,440,297</u>	<u>\$ 6,925,373</u>	<u>\$ 3,083,710</u>

Principal Taxpayers

The following table represents the ten principal taxpayers, the taxable appraised value of such property and the percentage of the 2019 Taxable Assessed Valuation attributable to such property. A principal taxpayer list related to the Estimated Taxable Assessed Valuation as of September 1, 2019 is not available.

<u>Taxpayer</u>	<u>Type of Property</u>	2019 Certified Taxable Assessed Valuation	% of 2019 Certified Taxable Assessed Valuation
Camillo Properties Ltd. (a)	Land & Improvements	\$ 6,715,930	12.27%
Legend Classic Homes Ltd (a)	Land & Improvements	3,286,070	6.00%
Victorian Gardens Ltd. (a)	Land	1,995,400	3.65%
17000 Bissonnet LLC	Land & Improvements	1,254,740	2.29%
Individual	Land & Improvements	305,110	0.56%
Individual	Land & Improvements	304,550	0.56%
Individual	Land & Improvements	304,490	0.56%
Individual	Land & Improvements	304,240	0.56%
Individual	Land & Improvements	303,140	0.55%
Individual	Land & Improvements	302,190	0.55%
Total		\$ 15,075,860	27.54%

(a) Related entities. See "THE DEVELOPER."

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2019 Taxable Assessed Valuation of \$54,737,243 or the Estimated Taxable Assessed Valuation as of September 1, 2019 of \$97,550,896 which is subject to review and adjustment prior to certification. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "DEBT SERVICE REQUIREMENTS."

Average Annual Debt Service Requirement (2020-2044)	\$274,783
\$0.53 Tax Rate on 2019 Taxable Assessed Valuation	\$275,602
\$0.30 Tax Rate on Estimated Taxable Assessed Valuation as of September 1, 2019	\$278,020
Maximum Annual Debt Service Requirement (2044)	\$333,531
\$0.65 Tax Rate on 2019 Taxable Assessed Valuation	\$338,002
\$0.36 Tax Rate on Estimated Taxable Assessed Valuation as of September 1, 2019	\$333,624

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “RISK FACTORS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully herein under “THE BONDS—Source of and Security for Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran’s residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who was entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, effective January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See “TAX DATA.”

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

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

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to ten percent (10%) annually regardless of the market value of the property.

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

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

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

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

Tax Payment Installment After Disaster

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

Rollback of Operation and Maintenance Tax Rate

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

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

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

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

The District: A determination as to the District's status as a Special Taxing Unit, Developed District or Developing District will be made on an annual basis, at the time the District sets its tax rate, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new rollback election calculation.

District's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the cost of suit and sale, 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 (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "RISK FACTORS—General" and "—Tax Collections Limitations and Foreclosure Remedies."

The Effect of FIRREA on Tax Collections of the District

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

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

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

LEGAL MATTERS

Legal Proceedings

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

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

Allen Boone Humphries Robinson LLP, also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by McCall Parkhurst & Horton LLP, as disclosure counsel.

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

No Material Adverse Change

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

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to its knowledge threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest or the principal of the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officers of the District.

TAX MATTERS

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

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

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

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") is less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (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 the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

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

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

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

Not Qualified Tax-Exempt Obligations

The Bonds are not designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was rendered by UMB Bank, N.A. (the “Initial Purchaser” or “Underwriter”) bearing the interest rates shown on the cover page of this Official Statement, at a price of 97.3702% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 2.675214% as calculated pursuant to Chapter 1204, Texas Government Code.

Prices and Marketability

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

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of municipal utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, which are more generally bought, sold or traded in the secondary market.

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. An explanation of the rating may be obtained from S&P.

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

No application has been made to a municipal bond rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$534.9 million, \$132.5 million and \$402.4 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants. Each consultant has consented to the use of information provided by such firms.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the District's assessed valuations and certain other historical data concerning tax rates and tax collections has been provided by Bob Leared Interests and is included herein in reliance upon the authority of such firm as an expert in assessing property values and collecting taxes.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," and "THE SYSTEM" (as it relates to District facilities) has been provided by Odyssey Engineering Group, LLC. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

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

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

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

The financial information with respect to the Developer is found in the APPENDIX B (Financial Information Concerning the Developer). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending on or after 2019. Any information so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

Event Notices

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

Availability of Information from the MSRB

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

Limitations and Amendments

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

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

Compliance With Prior Undertakings

The District has no outstanding debt and has not previously entered into a continuing disclosure agreement.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Fort Bend County Municipal Utility District No. 206, as of the date shown on the cover page.

/s/ Robin Stoner
President, Board of Directors
Fort Bend County Municipal Utility District No. 206

ATTEST:

/s/ Michael H. Arterburn
Secretary, Board of Directors
Fort Bend County Municipal Utility District No. 206

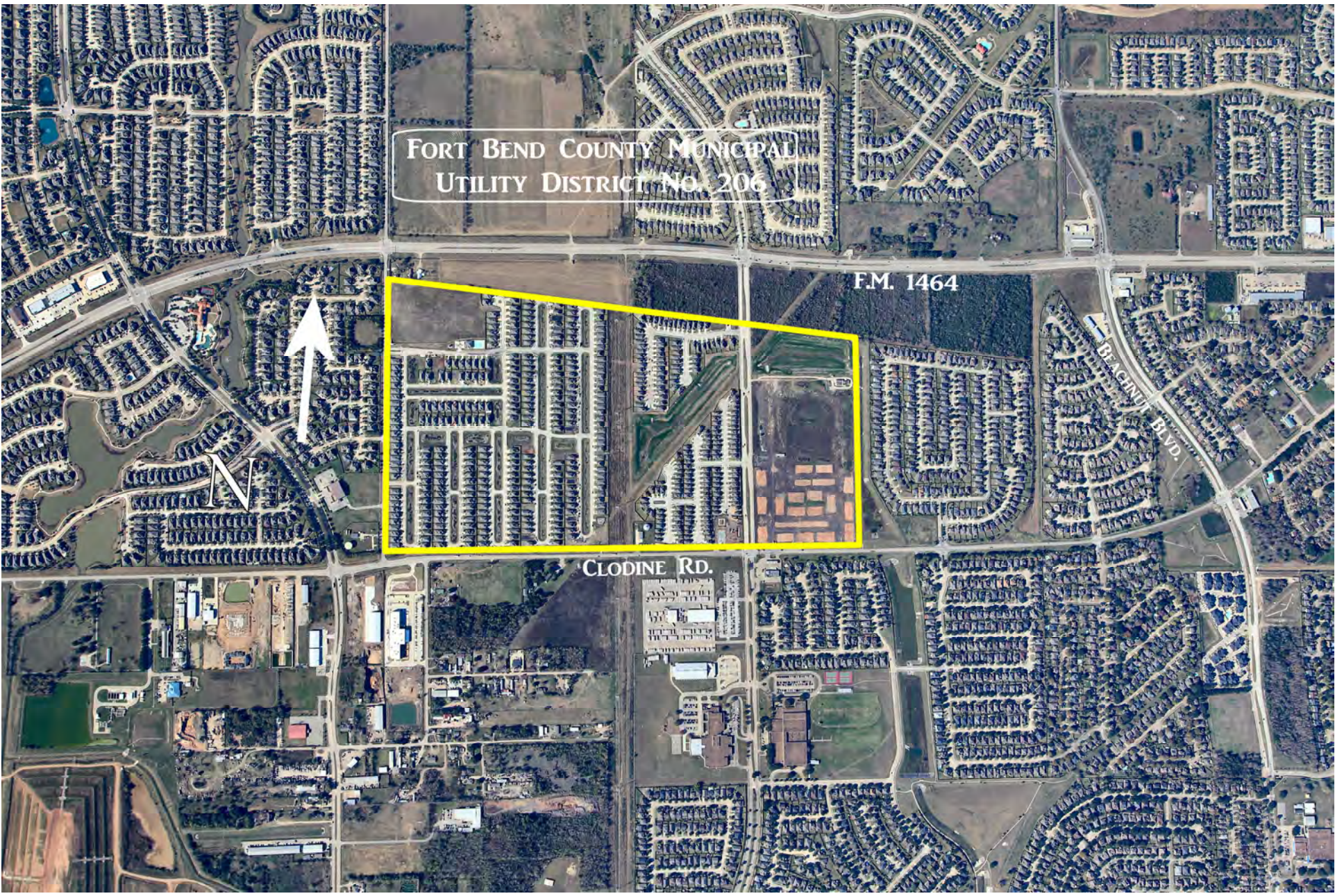
AERIAL PHOTOGRAPH
(Approximate boundaries of the District as of December 2019)

FORT BEND COUNTY MUNICIPAL
UTILITY DISTRICT No. 206

F.M. 1464

BLACOND BLVD.

CLODINE RD.



PHOTOGRAPHS OF THE DISTRICT
(Taken December 2019)













APPENDIX A

District Financial Statements for the fiscal year ended July 31, 2019

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206

FORT BEND COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2019

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206

FORT BEND COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fort Bend County Municipal
Utility District No. 206
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of Fort Bend County Municipal Utility District No. 206 (the "District"), as of and for the year ended July 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Fort Bend County Municipal
Utility District No. 206

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

December 10, 2019

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

Management's discussion and analysis of Fort Bend County Municipal Utility District No. 206's (the "District") financial performance provides an overview of the District's financial activities for the year ended July 31, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund type. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures.

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$9,453,771 as of July 31, 2019.

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

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

Summary of Changes in the Statement of Net Position			
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 495,191	\$ 120,676	\$ 374,515
Capital Assets (Net of Accumulated Depreciation)	<u>14,168,769</u>	<u>11,388,203</u>	<u>2,780,566</u>
Total Assets	<u>\$ 14,663,960</u>	<u>\$ 11,508,879</u>	<u>\$ 3,155,081</u>
Due to Developer	\$ 23,932,621	\$ 17,883,265	\$ (6,049,356)
Other Liabilities	<u>185,110</u>	<u>180,753</u>	<u>(4,357)</u>
Total Liabilities	<u>\$ 24,117,731</u>	<u>\$ 18,064,018</u>	<u>\$ (6,053,713)</u>
Net Position:			
Net Investment in Capital Assets	\$ (8,122,002)	\$ (5,046,712)	\$ (3,075,290)
Unrestricted	<u>(1,331,769)</u>	<u>(1,508,427)</u>	<u>176,658</u>
Total Net Position	<u><u>\$ (9,453,771)</u></u>	<u><u>\$ (6,555,139)</u></u>	<u><u>\$ (2,898,632)</u></u>

*

The following table provides a summary of the District's operations for the years ended July 31, 2019, and July 31, 2018.

Summary of Changes in the Statement of Activities			
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 436,175	\$ 201,605	\$ 234,570
Charges for Services	798,098	246,952	551,146
Other Revenues	<u>271,739</u>	<u>5,319</u>	<u>266,420</u>
Total Revenues	<u>\$ 1,506,012</u>	<u>\$ 453,876</u>	<u>\$ 1,052,136</u>
Expenses for Services	<u>4,404,644</u>	<u>3,359,765</u>	<u>(1,044,879)</u>
Change in Net Position	\$ (2,898,632)	\$ (2,905,889)	\$ 7,257
Net Position, Beginning of Year	<u>(6,555,139)</u>	<u>(3,649,250)</u>	<u>(2,905,889)</u>
Net Position, End of Year	<u><u>\$ (9,453,771)</u></u>	<u><u>\$ (6,555,139)</u></u>	<u><u>\$ (2,898,632)</u></u>

*

* As Adjusted, see Note 15.

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's General Fund fund balance as of July 31, 2019, was \$304,613, an increase of \$261,454 from the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$447,020 more than budgeted revenues. Actual expenditures were \$469,062 more than budgeted expenditures.

CAPITAL ASSETS

Capital assets as of July 31, 2019, total \$14,168,769 (net of accumulated depreciation) and include land and land improvements, as well as the water, wastewater and drainage systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets, Net of Accumulated Depreciation:			
Water System	\$ 4,709,290	\$ 4,407,632	\$ 301,658
Wastewater System	3,636,139	2,910,737	725,402
Drainage System	4,517,968	2,952,603	1,565,365
Landscaping	1,305,372	1,117,231	188,141
Total Net Capital Assets	\$ 14,168,769	\$ 11,388,203	\$ 2,780,566

Additional information on the District's capital assets can be found in Note 5 of this report.

LONG-TERM DEBT ACTIVITY

As of July 31, 2019, the District had no long-term debt.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Fort Bend County Municipal Utility District No. 206, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JULY 31, 2019

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 140,309	\$	\$ 140,309
Investments	290,170		290,170
Receivables:			
Property Taxes	5,468		5,468
Service Accounts	45,570		45,570
Prepaid Costs	13,674		13,674
Capital Assets (Net of Accumulated Depreciation)		14,168,769	14,168,769
TOTAL ASSETS	\$ 495,191	\$ 14,168,769	\$ 14,663,960
LIABILITIES			
Accounts Payable	\$ 154,385	\$	\$ 154,385
Due to Developer		23,932,621	23,932,621
Security Deposits	30,725		30,725
TOTAL LIABILITIES	\$ 185,110	\$ 23,932,621	\$ 24,117,731
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	\$ 5,468	\$ (5,468)	\$ - 0 -
FUND BALANCE			
Nonspendable:			
Prepaid Costs	\$ 13,674	\$ (13,674)	\$
Unassigned	290,939	(290,939)	
TOTAL FUND BALANCES	\$ 304,613	\$ (304,613)	\$ - 0 -
TOTAL LIABILITIES AND FUND BALANCE			
	\$ 495,191		
NET POSITION			
Net Investment in Capital Assets		\$ (8,122,002)	\$ (8,122,002)
Unrestricted		(1,331,769)	(1,331,769)
TOTAL NET POSITION		\$ (9,453,771)	\$ (9,453,771)

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JULY 31, 2019

Total Fund Balance - Governmental Funds	\$	304,613
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.</p>		14,168,769
<p>Deferred inflows of resources related to property tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.</p>		5,468
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:</p>		
Due to Developer		<u>(23,932,621)</u>
Total Net Position - Governmental Activities	\$	<u>(9,453,771)</u>

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JULY 31, 2019

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Property Taxes	\$ 430,971	\$ 5,204	\$ 436,175
Water Service	103,415		103,415
Wastewater Service	168,134		168,134
Regional Water Authority Fees	69,211		69,211
Penalty and Interest	9,218		9,218
Tap Connection and Inspection Fees	448,120		448,120
Investment Revenues	170		170
Miscellaneous Revenues	32,431	239,138	271,569
TOTAL REVENUES	<u>\$ 1,261,670</u>	<u>\$ 244,342</u>	<u>\$ 1,506,012</u>
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 98,396	\$	\$ 98,396
Contracted Services	110,188		110,188
Purchased Water Service	48,172		48,172
Utilities	49,432		49,432
Regional Water Authority Assessments	55,764		55,764
Repairs and Maintenance	320,602		320,602
Depreciation		546,808	546,808
Other	282,348		282,348
Capital Outlay	260,952	(260,952)	
Conveyance of Assets		2,892,934	2,892,934
Debt Service:			
Capital Lease Principal	103,500	(103,500)	
TOTAL EXPENDITURES/EXPENSES	<u>\$ 1,329,354</u>	<u>\$ 3,075,290</u>	<u>\$ 4,404,644</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (67,684)</u>	<u>\$ 67,684</u>	<u>\$ -0-</u>
OTHER FINANCING SOURCES (USES)			
Contributed by Other Governmental Unit	\$ 239,138	\$ (239,138)	\$
Developer Advances	90,000	(90,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 329,138</u>	<u>\$ (329,138)</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCE	\$ 261,454	\$ (261,454)	\$
CHANGE IN NET POSITION		(2,898,632)	(2,898,632)
FUND BALANCE/NET POSITION - AUGUST 1, 2018, AS ADJUSTED	<u>43,159</u>	<u>(6,598,298)</u>	<u>(6,555,139)</u>
FUND BALANCE/NET POSITION - JULY 31, 2019	<u>\$ 304,613</u>	<u>\$ (9,758,384)</u>	<u>\$ (9,453,771)</u>

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

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2019**

Net Change in Fund Balance - Governmental Funds	\$	261,454
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenue is recorded in the accounting period for which the taxes are levied.		5,204
Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(546,808)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		260,952
Assets conveyed to Fort Bend County are recorded as an expense in the Statement of Activities.		(2,892,934)
Governmental funds report principal payments on long-term liabilities as expenditures. However, in the government-wide financial statements, principal payments decrease long-term liabilities and the Statement of Activities is not affected.		103,500
Governmental funds report developer advances for operations as other financing sources. However, in the government-wide financial statements, these advances are recorded as a liability.		<u>(90,000)</u>
Change in Net Position - Governmental Activities	\$	<u><u>(2,898,632)</u></u>

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 1. CREATION OF DISTRICT

Fort Bend County Municipal Utility District No. 206 (the “District”) was created effective July 11, 2013, by an Order of the Texas Commission on Environmental Quality (the “Commission”). The District is empowered to purchase, operate and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, and to construct roads as well as parks and recreational facilities for the residents of the District. The Board of Directors held its organizational meeting on July 15, 2013.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Fund

The District has one governmental fund; therefore, this fund is a major fund.

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

Basis of Accounting

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

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

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

The District chose to early implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Interest costs will no longer be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements.

Assets are capitalized, including infrastructure assets, if they have an original cost of \$15,000 or more and an estimated useful life of two years or more following the date of acquisition. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

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

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

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

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

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

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The District does not have any restricted fund balances.

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

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

Unassigned: all other spendable amounts in the General Fund.

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's deposits was \$140,309 and the bank balance was \$143,131. The bank balance was fully covered by federal depository insurance.

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

	Cash
GENERAL FUND	\$ 140,309

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth;

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

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

The District invests in Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool’s administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. Wells Fargo Bank, N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District’s position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS.

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

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	<u>\$ 290,170</u>	<u>\$ 290,170</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At July 31, 2019, the District’s investment in Texas CLASS were rated “AAAm” by Standard and Poor’s.

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 4. MAINTENANCE TAX

On November 5, 2013, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.40 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$1.40 per \$100 of assessed valuation, which resulted in a tax levy of \$407,097 on the adjustable taxable valuation of \$29,078,360 for the 2018 tax year.

The District's tax calendar is as follows:

- Levy Date - October 1, or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended July 31, 2019:

	August 1, 2018	Increases	Decreases	July 31, 2019
Capital Assets Subject to Depreciation				
Water System	\$ 4,982,058	\$ 511,884	\$	\$ 5,493,942
Wastewater System	3,165,685	819,922		3,985,607
Drainage System	3,187,741	1,672,783		4,860,524
Landscaping	1,318,924	322,785		1,641,709
Total Capital Assets Subject to Depreciation	\$ 12,654,408	\$ 3,327,374	\$ - 0 -	\$ 15,981,782
Accumulated Depreciation				
Water System	\$ 574,426	\$ 210,226	\$	\$ 784,652
Wastewater System	254,948	94,520		349,468
Drainage System	235,138	107,418		342,556
Landscaping	201,693	134,644		336,337
Total Accumulated Depreciation	\$ 1,266,205	\$ 546,808	\$ - 0 -	\$ 1,813,013
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 11,388,203	\$ 2,780,566	\$ - 0 -	\$ 14,168,769

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 6. UNREIMBURSED COSTS

The District has executed construction and purchase agreements covering water, wastewater and drainage facilities as well as roads and recreational facilities with a developer which call for the developer to fund costs associated with District facilities as well as provide operating advances when needed. The District will pursue the issuance of bonds to reimburse the developer for costs incurred related to these agreements. To date, the developer has contributed \$22,290,771 for the design and construction of the water, wastewater and drainage facilities and made operating advances of \$1,641,850, of which \$90,000 was made in the current fiscal year.

NOTE 7. BONDS VOTED

On November 5, 2013, District voters authorized the issuance of water, wastewater and drainage facilities bonds, recreational facilities bonds, and road facilities bonds up to a maximum amount of \$59,750,000, \$7,100,000 and \$38,250,000, respectively.

NOTE 8. ROAD MAINTENANCE TAX

On November 5, 2013, the voters of the District approved the levy and collection of a road maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District. This road maintenance tax is to be used by the General Fund to pay expenditures of operating the District's roads. During the current fiscal year, the District levied an ad valorem road maintenance tax rate of \$0.10 per \$100 of assessed valuation, which resulted in a tax levy of \$29,078 on the adjustable taxable valuation of \$29,078,360 for the 2018 tax year.

NOTE 9. ECONOMIC DEPENDENCY

The District's developer owns a substantial portion of the taxable property within the District. The developer's ability to make full and timely payments of taxes as well as operating advances could directly affect the District's ability to meet its financial obligations.

NOTE 10. GROUNDWATER REDUCTION PLAN

The District is located within the North Fort Bend Water Authority (the "Authority"). The Authority was created under Article 16, Section 59 of the Texas Constitution by Senate Bill 1798 (the "Act"), as passed by the 79th Texas Legislature, in 2005. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater and for the reduction of groundwater withdrawals.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 10. GROUNDWATER REDUCTION PLAN (Continued)

The Authority is overseeing that its participants comply with subsidence district pumpage requirements. The District is required to convert its water supply to surface water over a period of time.

The District is required to pay the Authority a water well pumpage fee, based on the amount of water pumped from all well(s) owned and operated by the District. This fee will enable the Authority to fulfill its purpose and regulatory functions. The current fee being charged is \$3.65 per 1,000 gallons of water pumped from each well. The District recorded expenditures of \$55,764 for fees assessed during the current fiscal year. The District is required to pay the Authority for surface water purchased. The current rate being charged is \$4.00 per 1,000 gallons of water received. The District recorded expenditures of \$48,172 for surface water purchased during the current fiscal year.

NOTE 11. CAPITAL LEASE

On April 22, 2014, the District entered into a capital lease agreement with Gaylord Investment Company to finance a 0.15 MGD wastewater treatment plant in the amount of \$580,000 at an interest rate of 7.0%. Accumulated depreciation through July 31, 2019 totaled \$63,371. This lease was paid in full during the current fiscal year. See Note 15.

NOTE 12. RISK MANAGEMENT

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

NOTE 13. INTERLOCAL AGREEMENT WITH FORT BEND COUNTY

On July 24, 2018, the District and Fort Bend County (the “County”) entered into an agreement for roadway improvements within or adjacent to Camellia, Sections 3 and 4. The agreement calls for the County to provide funding to the District for costs of the project in the amount of \$239,138. During the current fiscal year, the County made a contribution to the District in this amount. The project was completed and accepted by the County and the roadway assets were conveyed to the County by the District for maintenance.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 14. INTERIM WASTEWATER TREATMENT SERVICES AGREEMENT

On December 12, 2017, the District entered into an agreement with Fort Bend County Municipal Utility District No. 190 (“District No. 190”) to provide interim wastewater services for wastewater collected within the boundaries of District No. 190. The District agrees to receive generated wastewater by District No. 190 in an amount not to exceed 15,000 gallons per day. District No. 190 has agreed to pay an amount equal to \$140.00 per truckload discharged into the District’s sanitary sewer system. The agreement shall remain in force until such time that District No. 190 sends notice to the District that it terminates the agreement, however, in no case shall the agreement continue in effect after December 31, 2020, unless both districts amend the agreement. The District recorded \$15,680 of revenue per this agreement in the current fiscal year.

NOTE 15. PRIOR PERIOD ADJUSTMENT

During the current fiscal year, it was determined that the remaining capital lease payable balance on the wastewater treatment plant was overstated. The effect on the District’s Net Position balance is as follow:

Net Position - August 1, 2018	\$ (6,668,169)
Effect of Adjustment	<u>113,030</u>
Net Position - August 1, 2018, As Adjusted	<u>\$ (6,555,139)</u>

NOTE 16. BOND APPLICATION

The District has filed an application with the Commission asking for approval to issue \$5,000,000 in bonds. The Commission declared the application administratively complete on May 30, 2019. Delivery of the bonds is expected in early 2020.

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FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206

REQUIRED SUPPLEMENTARY INFORMATION

JULY 31, 2019

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JULY 31, 2019

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 474,000	\$ 430,971	\$ (43,029)
Water Service	59,800	103,415	43,615
Wastewater Service	91,900	168,134	76,234
Regional Water Authority Fee	43,300	69,211	25,911
Penalty and Interest	1,200	9,218	8,018
Tap Connection and Inspection Fees	137,400	448,120	310,720
Investment Revenues	150	170	20
Miscellaneous Revenues	6,900	32,431	25,531
TOTAL REVENUES	<u>\$ 814,650</u>	<u>\$ 1,261,670</u>	<u>\$ 447,020</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 74,700	\$ 98,396	\$ (23,696)
Contracted Services	87,598	110,188	(22,590)
Utilities	51,500	49,432	2,068
Purchased Water/Water Authority Assessments	86,000	103,936	(17,936)
Repairs and Maintenance	287,925	320,602	(32,677)
Other	134,569	282,348	(147,779)
Capital Outlay		260,952	(260,952)
Debt Service:			
Capital Lease Principal	138,000	103,500	34,500
TOTAL EXPENDITURES	<u>\$ 860,292</u>	<u>\$ 1,329,354</u>	<u>\$ (469,062)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (45,642)</u>	<u>\$ (67,684)</u>	<u>\$ (22,042)</u>
OTHER FINANCING SOURCES(USES)			
Contributed by Other Governmental Entity	\$	\$ 239,138	\$ 239,138
Developer Advances	45,642	90,000	44,358
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 45,642</u>	<u>\$ 329,138</u>	<u>\$ 283,496</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ 261,454	\$ 261,454
FUND BALANCE - AUGUST 1, 2018	<u>43,159</u>	<u>43,159</u>	<u></u>
FUND BALANCE - JULY 31, 2019	<u>\$ 43,159</u>	<u>\$ 304,613</u>	<u>\$ 261,454</u>

See accompanying independent auditor's report.

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FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

JULY 31, 2019

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved July 9, 2019.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 25.00	6,000	N	\$ 2.00 \$ 2.50 \$ 3.00	6,001 to 11,000 11,001 to 16,000 16,001 and up
WASTEWATER:	\$ 50.00		Y		
SURCHARGE:					
Regional Water Authority Fees			N	\$4.40	1,000 and up

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

Total monthly charges per 10,000 gallons usage: Water: \$33.00 Wastewater: \$50.00 Surcharge: \$44.00 Total \$127.00

See accompanying independent auditor's report.

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	<u>442</u>	<u>435</u>	x 1.0	<u>435</u>
1"	<u>3</u>	<u>3</u>	x 2.5	<u>8</u>
1½"			x 5.0	
2"	<u>5</u>	<u>5</u>	x 8.0	<u>40</u>
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"	<u>1</u>	<u>1</u>	x 80.0	<u>80</u>
10"			x 115.0	
Total Water Connections	<u><u>451</u></u>	<u><u>444</u></u>		<u><u>563</u></u>
Total Wastewater Connections	<u><u>443</u></u>	<u><u>436</u></u>	x 1.0	<u><u>436</u></u>

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

Gallons pumped into system:	14,692,000	Water Accountability Ratio: 90.6% (Gallons billed and flushing/Gallons pumped and purchased)
Gallons billed to customers:	26,073,000	
Gallons purchased:	14,082,000	From: North Fort Bend Water Authority

See accompanying independent auditor's report.

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019**

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

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

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County or Counties in which District is located:

Fort Bend County, Texas

Is the District located within a city?

Entirely _____ Partly _____ Not at all X

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

Entirely X Partly _____ Not at all _____

ETJ's in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2019

PROFESSIONAL FEES:	
Auditing	\$ 8,750
Engineering	50,022
Legal	39,560
Delinquent Tax Attorney	<u>64</u>
TOTAL PROFESSIONAL FEES	<u>\$ 98,396</u>
 PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 48,172</u>
 CONTRACTED SERVICES:	
Appraisal District	\$ 5,071
Bookkeeping	22,969
Operations and Billing	44,777
Tax Collector	<u>6,325</u>
TOTAL CONTRACTED SERVICES	<u>\$ 79,142</u>
 UTILITIES:	
Electricity	\$ 45,841
Telephone	<u>3,591</u>
TOTAL UTILITIES	<u>\$ 49,432</u>
 REPAIRS AND MAINTENANCE	<u>\$ 320,602</u>
 ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 3,300
Dues	650
Insurance	13,382
Legal Notices	428
Office Supplies and Postage	8,058
Payroll Administration	1,063
Payroll Taxes	253
Travel and Meetings	767
Other	<u>3,937</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 31,838</u>

See accompanying independent auditor's report.

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2019**

CAPITAL OUTLAY	<u>\$ 260,952</u>
TAP CONNECTIONS	<u>\$ 151,525</u>
SOLID WASTE DISPOSAL	<u>\$ 31,046</u>
OTHER EXPENDITURES:	
Chemicals	\$ 5,023
Laboratory Fees	8,149
Permit Fees	220
Reconnection Fees	11,927
Inspection Fees	69,742
Regional Water Authority Assessments	55,764
Regulatory Assessment	1,241
Sludge Hauling	<u>2,683</u>
TOTAL OTHER EXPENDITURES	<u>\$ 154,749</u>
DEBT SERVICE:	
Capital Lease Principal	<u>\$ 103,500</u>
TOTAL EXPENDITURES	<u>\$ 1,329,354</u>

See accompanying independent auditor's report.

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
INVESTMENTS
FOR THE YEAR ENDED JULY 31, 2019**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u> Texas CLASS	XXXX0001	Varies	Daily	<u>\$ 290,170</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2019

	Maintenance Taxes		Road Maintenance Taxes	
TAXES RECEIVABLE -				
AUGUST 1, 2018	\$	246	\$	18
Adjustments to Beginning				
Balance		\$ 246		\$ 18
Original 2018 Tax Levy	\$	403,966	\$	28,855
Adjustment to 2018 Tax Levy		3,131		223
		407,097		29,078
TOTAL TO BE				
ACCOUNTED FOR		\$ 407,343		\$ 29,096
TAX COLLECTIONS:				
Prior Years	\$	246	\$	18
Current Year		401,993		28,714
		402,239		28,732
TAXES RECEIVABLE -				
JULY 31, 2019		\$ 5,104		\$ 364
TAXES RECEIVABLE BY				
YEAR:				
2018		\$ 5,104		\$ 364

See accompanying independent auditor's report.

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**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2019**

	2018	2017	2016	2015
PROPERTY VALUATIONS:				
Land	\$ 11,856,760	\$ 6,686,500	\$ 5,927,790	\$ 3,180,660
Improvements	17,367,580	6,770,490	1,020,610	
Personal Property	81,130	86,960	78,130	
Exemptions	(227,110)	(103,653)	(101,157)	(96,950)
TOTAL PROPERTY VALUATIONS	\$ 29,078,360	\$ 13,440,297	\$ 6,925,373	\$ 3,083,710
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Road Maintenance	0.10	0.10	0.10	0.00
Maintenance	1.40	1.40	1.40	1.40
TOTAL TAX RATES PER \$100 VALUATION	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.40
ADJUSTED TAX LEVY*	\$ 436,175	\$ 201,605	\$ 103,881	\$ 43,172
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	98.75 %	100.00 %	100.00 %	100.00 %

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

Maintenance Tax – Maximum tax rate of \$1.40 per \$100 of assessed valuation approved by voters on November 5, 2013.

Road Maintenance Tax – Maximum tax rate of \$0.10 per \$100 of assessed valuation approved by voters on November 5, 2013.

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – FOUR YEARS

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 430,971	\$ 201,341	\$ 103,881
Water Service	103,415	46,631	16,005
Wastewater Service	168,134	67,967	18,350
Regional Water Authority Fee	69,211	27,293	7,481
Penalty and Interest	9,218	1,402	141
Tap Connection and Inspection Fees	448,120	103,659	43,580
Investment Revenues	170		55
Miscellaneous Revenues	32,431	5,319	1,990
TOTAL REVENUES	\$ 1,261,670	\$ 453,612	\$ 191,483
EXPENDITURES			
Professional Fees	\$ 98,396	\$ 57,730	\$ 124,715
Contracted Services	110,188	79,306	53,620
Purchased Water Service	48,172		232
Utilities	49,432	45,356	29,793
Regional Water Authority Assessment	55,764	73,935	44,202
Repairs and Maintenance	320,602	290,567	225,834
Other	282,348	124,894	133,046
Capital Outlay	260,952		
Debt Service:			
Capital Lease Principal	103,500	138,000	138,000
TOTAL EXPENDITURES	\$ 1,329,354	\$ 809,788	\$ 749,442
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (67,684)	\$ (356,176)	\$ (557,959)
OTHER FINANCING SOURCES (USES)			
Contributed by Other Governmental Entity	\$ 239,138	\$	\$
Developer Advances	90,000	388,000	541,500
TOTAL OTHER FINANCING SOURCES (USES)	\$ 329,138	\$ 388,000	\$ 541,500
NET CHANGE IN FUND BALANCE	\$ 261,454	\$ 31,824	\$ (16,459)
BEGINNING FUND BALANCE	43,159	11,335	27,794
ENDING FUND BALANCE	\$ 304,613	\$ 43,159	\$ 11,335
TOTAL ACTIVE RETAIL WATER CONNECTIONS	444	169	87
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	436	165	87

See accompanying independent auditor's report.

		Percentage of Total Revenues			
2016	2019	2018	2017	2016	
\$ 43,172	34.2 %	44.3 %	54.2 %	40.3 %	
9,288	8.2	10.3	8.4	8.7	
11,570	13.3	15.0	9.6	10.8	
1,725	5.5	6.0	3.9	1.6	
37	0.7	0.3	0.1		
40,080	35.5	22.9	22.8	37.4	
26					
<u>1,300</u>	<u>2.6</u>	<u>1.2</u>	<u>1.0</u>	<u>1.2</u>	
<u>\$ 107,198</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	
\$ 111,170	7.8 %	12.7 %	65.1 %	103.7 %	
38,483	8.7	17.5	28.0	35.9	
25,747	3.8		0.1	24.0	
24,675	3.9	10.0	15.6	23.0	
10,550	4.4	16.3	23.1	9.8	
42,707	25.4	64.1	117.9	39.8	
74,442	22.4	27.5	69.5	69.4	
	20.7				
<u>138,000</u>	<u>8.2</u>	<u>30.4</u>	<u>72.1</u>	<u>128.7</u>	
<u>\$ 465,774</u>	<u>105.3 %</u>	<u>178.5 %</u>	<u>391.4 %</u>	<u>434.3 %</u>	
<u>\$ (358,576)</u>	<u>(5.3) %</u>	<u>(78.5) %</u>	<u>(291.4) %</u>	<u>(334.3) %</u>	
\$					
<u>412,000</u>					
\$ 412,000					
\$ 53,424					
<u>(25,630)</u>					
<u>\$ 27,794</u>					
<u>40</u>					
<u>40</u>					

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2019

District Mailing Address - Fort Bend County Municipal Utility District No. 206
c/o Allen Boone Humphries Robinson LLP
3200 Southwest Freeway, Suite 2600
Houston, TX 77027

District Telephone Number - (713) 860-6400

Board Members:	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the year ended July 31, 2019</u>	<u>Expense Reimbursements for the year ended July 31, 2019</u>	<u>Title</u>
Robin Stoner	05/2018 05/2022 (Elected)	\$ 900	\$ 324	President
Amy Rozell	05/2016 05/2020 (Elected)	\$ 750	\$ 17	Vice President
Michael Arterburn	05/2018 05/2022 (Elected)	\$ 900	\$ -0-	Secretary
Cherie Howell	05/2016 05/2020 (Elected)	\$ 300	\$ 218	Assistant Vice President/ Assistant Secretary
Rebecca Covell	05/2016 05/2020 (Elected)	\$ 450	\$ 80	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): May 16, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on August 14, 2013. Fees of Office are the amounts actually paid to a Director during the District's fiscal year.

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2019

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended July 31, 2019</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	07/15/13	\$ 43,720	General Counsel
		\$ -0-	Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	07/12/16	\$ 8,750	Auditor
Municipal Accounts and Consulting, L.P.	04/10/18	\$ 24,456	Bookkeeper
Perdue Brandon Fielder Collins & Mott, LLP	03/11/14	\$ 64	Delinquent Tax Attorney
Odyssey Engineering Group, LLC	03/08/16	\$ 50,022	Engineer
Si Environmental, LLC	08/13/13	\$ 419,021	Operator
Masterson Advisors LLC	05/08/18	\$ -0-	Financial Advisor
Mark Burton	09/11/18	\$ -0-	Investment Officer
Ghia Lewis	09/11/18	\$ -0-	Investment Officer
Bob Leared Interests	11/13/13	\$ 8,612	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

Financial Information Concerning the Developer and Camcorp Interests, Ltd.

Camcorp Interests, Ltd., as the limited partner of Victorian Gardens Ltd., has delivered the consolidated unaudited financial information included in this APPENDIX B (the "Financial Information") to the District for publication in connection with the District's offer and sale of the Bonds. Certain financial information concerning the Developer is included as part of the consolidated financial statements of Camcorp Interests, Ltd. and the Financial Information has been included herein solely as additional information concerning the financial condition of the Developer. Such Financial Information is relevant, among other reasons, to the Developer's ability to continue developing its land within the District and to pay ad valorem taxes thereon, and to preserve its financial investment in the District. Neither the Developer nor Camcorp Interests, Ltd. is responsible for, liable for, or has made any commitment for payment of the Bonds or other obligations of the District, and the inclusion of the Financial Information herein should not be construed as an implication to that effect. Neither the Developer nor Camcorp Interests, Ltd. has made any legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of property within the District, or any other assets, at any time. Further, the Developer's and Camcorp Interests, Ltd.'s financial condition is subject to change, and, financial information concerning the Developer will not be provided by the District after the sale of the Bonds. Therefore, the District cautions that the attached Financial Information should not be construed or interpreted as an indication of the investment security of the Bonds. Camcorp Interests, Ltd. and the Developer have each represented to the District that the Financial Information relating to it has been prepared from its books and records, and fairly presented its financial condition on the date indicated in the Financial Information. Camcorp Interests, Ltd. and the Developer have each also represented to the District that the Financial Information did not fail to disclose any material fact or omit to state any material facts necessary to make such Financial Information not misleading and that there has not been any material change in its financial condition since the date on which the Financial Information is presented.

**CAMCORP INTERESTS, LTD.
AND CONSOLIDATED SUBSIDIARIES**

**Consolidated Financial Statements
As of December 31, 2018 and 2017**

EVANS & CHASTAIN, LLC
3310 Katy Freeway, Suite 100
Houston, Texas 77007
Office (713) 334-1200 • Fax (713) 334-1208

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Partners of Camcorp Interests, Ltd.

We have audited the accompanying financial statements of Camcorp Interests, Ltd., a Texas limited partnership and its fully consolidated subsidiaries (collectively, the Companies), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, partners' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Companies as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Evans & Christman, LLC

Houston, Texas

April 25, 2019

**CAMCORP INTERESTS, LTD.
AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS
As of December 31, 2018 and 2017**

	2018	2017
ASSETS		
Cash	\$ 22,760,646	\$ 11,020,542
Investment in marketable securities	21,720,654	25,240,188
Accounts receivable	11,728,898	10,014,873
Real estate inventories	341,027,506	292,389,589
Investments in subsidiaries	10,172,209	9,405,089
Fixed assets:		
Land	118,699	118,699
Buildings	2,302,519	2,302,519
Furniture and equipment	6,805,881	6,067,139
Vehicles	109,672	197,375
	9,336,771	8,685,732
Accumulated depreciation	(6,656,910)	(5,856,564)
	2,679,861	2,829,168
Other assets	1,379,997	858,822
Notes and accounts receivable from partners	30,565,795	28,495,488
Related party notes receivable	470,736	445,464
	\$ 442,506,302	\$ 380,699,223
LIABILITIES AND PARTNERS' EQUITY		
LIABILITIES:		
Accounts payable and accruals	\$ 23,639,393	\$ 22,667,008
Customer deposits	807,420	573,994
Construction debt	168,000,000	126,500,000
Total liabilities	192,446,813	149,741,002
Commitments and contingencies (Note 7)		
Partners' equity:		
Partners' equity	238,377,154	215,322,614
Non controlling interests in subsidiaries	1,144,713	1,117,282
Accumulated other comprehensive income	10,537,622	14,518,325
Total partners' equity	250,059,489	230,958,221
	\$ 442,506,302	\$ 380,699,223

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

**CAMCORP INTERESTS, LTD.
AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Revenue - home sales	\$ 250,656,165	\$ 188,524,167
Cost of homes sold	205,195,243	159,721,713
Gross profit - home sales	<u>45,460,922</u>	<u>28,802,454</u>
Revenue - lot and land sales	5,834,629	6,223,755
Cost of lots and land sold	3,702,906	3,860,973
Gross profit - lot and land sales	<u>2,131,723</u>	<u>2,362,782</u>
Total gross profit	47,592,645	31,165,236
Equity in earnings of subsidiaries	4,146,066	3,447,967
Interest income from MUD reimbursements	2,135,279	2,025,667
Other income	1,509,806	1,153,715
	<u>55,383,796</u>	<u>37,792,585</u>
Expenses:		
General and administrative	15,698,337	15,095,537
Construction and development costs, net of capitalized amounts	45,239	36,076
Sales and marketing	6,647,828	5,826,274
Interest expense, net	4,652,332	2,985,795
	<u>27,043,736</u>	<u>23,943,682</u>
Income before provision for Texas franchise tax	28,340,060	13,848,903
Provision for Texas franchise tax	294,956	167,955
Net income	28,045,104	13,680,948
Net (income) loss attributable to the non controlling interests	(27,431)	14,689
Net income attributable to Camcorp Interests, Ltd.	<u>28,017,673</u>	<u>13,695,637</u>
Other comprehensive income:		
Unrealized gain (loss) on investments available for sale	(3,980,703)	6,005,603
Total comprehensive income	<u>\$ 24,036,970</u>	<u>\$ 19,701,240</u>

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

**CAMCORP INTERESTS, LTD.
AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY
For the Years Ended December 31, 2018 and 2017**

	Camcorp Interests, Ltd. Partners	Non Controlling Interests	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2016	\$ 223,923,133	\$ 1,131,971	\$ 8,512,722	\$ 233,567,826
Distributions	(22,296,156)	-	-	(22,296,156)
Unrealized gain on marketable securities	-	-	6,005,603	6,005,603
Net income (loss)	<u>13,695,637</u>	<u>(14,689)</u>	<u>-</u>	<u>13,680,948</u>
Balance, December 31, 2017	215,322,614	1,117,282	14,518,325	230,958,221
Distributions	(4,963,133)	-	-	(4,963,133)
Unrealized loss on marketable securities	-	-	(3,980,703)	(3,980,703)
Net income	<u>28,017,673</u>	<u>27,431</u>	<u>-</u>	<u>28,045,104</u>
Balance, December 31, 2018	<u><u>\$ 238,377,154</u></u>	<u><u>\$ 1,144,713</u></u>	<u><u>\$ 10,537,622</u></u>	<u><u>\$ 250,059,489</u></u>

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

**CAMCORP INTERESTS, LTD.
AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows provided by (used for) operating activities:		
Net income	\$ 28,017,673	\$ 13,695,637
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	909,998	794,501
Non controlling interests in subsidiaries	27,431	(14,689)
Earnings from marketable securities	(461,169)	(313,130)
Changes in assets and liabilities -		
Accounts receivable	(1,714,025)	5,183,247
Real estate inventories	(48,637,917)	(30,877,992)
Related party notes receivable	(25,272)	3,461,994
Accounts payable and accrued liabilities	972,385	3,870,455
Customer deposits	233,426	(482,088)
Total adjustments	<u>(48,695,143)</u>	<u>(18,377,702)</u>
Net cash used for operating activities	<u>(20,677,470)</u>	<u>(4,682,065)</u>
Cash flows provided by (used for) investing activities:		
Purchases of fixed assets	(760,691)	(683,246)
Disposals (purchases) of other assets	<u>(521,175)</u>	<u>185,912</u>
Net cash used for investing activities	<u>(1,281,866)</u>	<u>(497,334)</u>
Cash flows provided by (used for) financing activities:		
Investments in subsidiaries	(767,120)	(273,985)
Notes receivable from partners	(2,070,307)	(7,995,293)
Construction debt	41,500,000	36,500,000
Distributions	<u>(4,963,133)</u>	<u>(22,296,156)</u>
Net cash provided by financing activities	<u>33,699,440</u>	<u>5,934,566</u>
Net change in cash and cash equivalents	11,740,104	755,167
Beginning balance of cash and cash equivalents	<u>11,020,542</u>	<u>10,265,375</u>
Ending balance of cash and cash equivalents	<u>\$ 22,760,646</u>	<u>\$ 11,020,542</u>
Supplemental information:		
Interest paid during the period	<u>\$ 7,910,738</u>	<u>\$ 4,536,190</u>
Texas franchise tax paid	<u>\$ 188,083</u>	<u>\$ 305,581</u>

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

**CAMCORP INTERESTS, LTD.
AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017**

1. Organization, Basis of Presentation and Operations

Organization

The accompanying financial statements include the accounts of Camcorp Interests, Ltd. (Camcorp) and its fully consolidated subsidiaries (collectively, the Companies). Camcorp was organized in 1993 as a Texas limited partnership; all of its consolidated subsidiaries are Texas limited partnerships or limited liability companies as well, and include:

<u>Company Name</u>	<u>Date Organized</u>
Windsor Park Estates, Ltd.	1993
Westbranch Estates, Ltd.	1993
Legend Classic Homes, Ltd.	1994
Windermere Interests, Ltd.	1996
Chelsea Harbour, Ltd.	2000
Lismore Lake Estates, Ltd.	2000
Interlock Concrete Pavers, L.P.	2000
Sydney Harbour Interests, Ltd.	2001
Oaklake Court, Ltd.	2003
Plantation Interests, Ltd.	2003
Rio Vista CMI, Ltd.	2003
Forest Creek Interests, Ltd.	2003
Triton Interests, Ltd.	2003
C.M.I. BenchMarc, Ltd.	2003
Katy Creek Ranch, L.P.	2003
Austinville Interests, Ltd.	2004
C.M.I. Palms, Ltd.	2004
Silver Springs Interests, Ltd.	2004
Werrington Interests, Ltd.	2004
Bella Vista CMI, Ltd.	2005
Bavaria CMI, Ltd.	2005
Brenwood CMI, Ltd.	2005
Charleston CMI, Ltd.	2005
Brenwood South, Ltd.	2006
Legends Trace, Ltd.	2006
CMI Teal Run, Ltd.	2006
Merrylands, Ltd.	2006
Benchmark Acquisitions, LLC	2006
CIL Procurement, LLC	2008
New Bear Creek Interests, LLC	2008

CAMCORP INTERESTS, LTD. AND SUBSIDIARIES

Notes to Financial Statements

December 31, 2018 and 2017

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<u>Company Name</u>	<u>Date Organized</u>
Victorian Gardens, LLC	2011
Marcello Lakes, Ltd.	2013
Camillo Lakes, Ltd.	2013
Evergreen Villas, Ltd.	2015
Tresviso Gardens, Ltd.	2015
Lilac Bend, Ltd.	2016
Upland Estates, Ltd.	2016
Adelaide Interests, Ltd.	2017
Saltgrass Meadows, Ltd.	2017
Madison Bend, Ltd.	2017
Brooklyn Trails, Ltd.	2017
Somerset Trails, Ltd.	2018
Rivers Edge Interests, Ltd.	2018
Sycamore Landing, Ltd.	2018
Pine Ridge Interests, Ltd.	2018
Legends of Hanna Ranch, Ltd.	2018
Bender's Creek, Ltd.	2018
Enchanted Bay, Ltd.	2018
Green Lake Meadow, Ltd.	2018
Mackenzie Creek, Ltd.	2018

Camcorp owns 100% of Legend Classic Homes, Ltd. (Legend), Interlock Concrete Pavers, L.P. (ICP), CIL Procurement, LLC, Benchmark Acquisitions, LLC and Katy Creek Ranch, L.P. It also owns 99.5% of Windsor Park Estates, Ltd., Windermere Interests, Ltd., and Westbranch Estates, Ltd.

Camcorp owns approximately 99% of each of the other entities listed above. Camcorp Interests, Ltd. is equally owned by two Texas trusts.

Operations

Legend Classic Homes, Ltd. (Legend) and Bella Vista CMI, Ltd. (Bella) are engaged in the homebuilding industry, constructing and selling single-family homes in the Houston and San Antonio, Texas metropolitan areas. Most of the other companies develop land into improved lots for use by Legend and Camillo Properties, Ltd., a related company, as well as for sale to other third-party homebuilders in the Houston or San Antonio areas.

Westbranch Estates, Ltd. and Triton Interests, Ltd. (Triton) hold investments in rental properties. Benchmark Acquisitions, LLC invests in commercial land reserves.

2. Summary of Significant Accounting Policies

Concentrations of Credit Risk

The Companies invest their cash in deposit accounts with financial institutions and balances, at times, may exceed the federally insured limits. As of December 31, 2018 and 2017, the Companies had approximately \$24 million and \$15.4 million, respectively, of uninsured funds at risk. The

CAMCORP INTERESTS, LTD. AND SUBSIDIARIES

Notes to Financial Statements

December 31, 2018 and 2017

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Companies have not experienced any losses from this credit risk and management believes the risk of loss is minimal.

Cash

The Companies consider all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

As of December 31, 2018 and 2017, unrestricted cash was comprised of amounts in demand deposit accounts and savings accounts. The interest rate on the savings accounts is minimal.

Investment in Marketable Securities

During 2011, the Companies invested a portion of their cash on hand by purchasing marketable securities; management considers this investment portfolio to be available-for-sale. Accordingly, these investments are recorded at fair value. At the end of each reporting period, cumulative unrealized gains and losses on these investments are recorded in accumulated other comprehensive income (loss) on the Balance Sheet and the change in the market value from year to year is reflected as a component of other comprehensive income on the Statement of Operations. During 2018 and 2017, the Companies did purchase and sell certain of the securities.

The Companies' marketable securities are in the custody of a single financial institution. The primary objective of these investments is attaining higher yields than the Companies earn on their cash and cash equivalents and maintaining a high degree of liquidity.

The Companies' investment portfolio consists of corporate equity securities and cash and money market accounts as reflected below:

	As of December 31, 2018		
	Unamortized Cost	Gross Unrealized Gain	Fair Value
Corporate equity securities	\$ 9,465,378	\$ 10,537,622	\$ 20,003,000
Cash/money accounts	1,717,654	-	1,717,654
	<u>\$ 11,183,032</u>	<u>\$ 10,537,622</u>	<u>\$ 21,720,654</u>

	As of December 31, 2017		
	Unamortized Cost	Gross Unrealized Gain	Fair Value
Corporate equity securities	\$ 9,309,304	\$ 14,306,696	\$ 23,616,000
Cash/money accounts	1,624,188	-	1,624,188
	<u>\$ 10,933,492</u>	<u>\$ 14,306,696</u>	<u>\$ 25,240,188</u>

CAMCORP INTERESTS, LTD. AND SUBSIDIARIES

Notes to Financial Statements

December 31, 2018 and 2017

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Revenue Recognition

The Companies recognize revenue from home sales and lot sales to outsiders when a closing occurs. A closing is considered to occur when payment has been received; title, possession, and other attributes of ownership have been transferred to the buyer; and the Companies are not obligated to perform significant activities after the sale. Lot sales from a company in the consolidated group to Legend are recognized when the home is actually closed by Legend to outsiders. Net profit on lot sales to Legend is treated as a reduction of cost of home sales or as a reduction of real estate inventories in the accompanying financial statements.

Cost of Sales

Cost of sales consists of labor, material and improved lot (or land) costs using the specific identification method. Cost of sales also includes interest, property taxes and indirect costs incurred during the construction (or development) period.

Advertising

The Companies expense the cost of advertising as it is incurred. Thus, the Companies had no prepaid advertising recorded as assets as of December 31, 2018 and 2017. During the years ended December 31, 2018 and 2017, advertising expense was \$1,062,450 and \$1,309,965, respectively.

Real Estate Inventories

Real estate inventories are stated at the lower of cost (specific identification) or estimated net realizable value. Interest, certain overhead and property taxes are capitalized during the construction period.

During 2017, the homebuilding companies made an adjustment to write down certain of its real estate inventories to net realizable value. Most of these homes were completed before 2017 and based on current market conditions, management believes that the costs incurred would not be fully recovered. The total adjustment amounted to approximately \$1.9 million and is included in "Cost of homes sold" in the accompanying 2017 Statement of Operations.

Related Party Transactions

Legend purchases lots for use in its homebuilding activities from some of Camcorp's consolidated subsidiaries as well as unconsolidated subsidiaries. The lots are purchased by Legend from these entities at fair market value and those subsidiaries record the revenue and related cost of sales from these transactions. However, as of December 31, 2018 and 2017, a significant portion of the lots purchased by Legend from its consolidated subsidiaries had not been sold to third parties. The profit recognition on these lots is deferred until the lots are sold outside of the consolidated group. The revenue and cost of sales related to these lots was reversed on the subsidiaries' books and the applicable lot cost was reversed on Legend's books. The following recap summarizes these transactions:

CAMCORP INTERESTS, LTD. AND SUBSIDIARIES

Notes to Financial Statements

December 31, 2018 and 2017

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	2018		
	Revenue	Cost of Sales	Net Profit
Beginning deferred income	\$ 12,886,428	\$ 9,996,167	\$ 2,890,261
Additional lot purchases by Legend	12,558,411	9,246,061	3,312,350
Amount recognized (sold to 3rd parties)	<u>(12,839,644)</u>	<u>(9,433,319)</u>	<u>(3,406,325)</u>
Ending deferred income	<u>\$ 12,605,195</u>	<u>\$ 9,808,909</u>	<u>\$ 2,796,286</u>

	2017		
	Revenue	Cost of Sales	Net Profit
Beginning deferred income	\$ 3,520,906	\$ 2,985,287	\$ 535,619
Additional lot purchases by Legend	14,701,556	11,434,079	3,267,477
Amount recognized (sold to 3rd parties)	<u>(5,336,034)</u>	<u>(4,423,199)</u>	<u>(912,835)</u>
Ending deferred income	<u>\$ 12,886,428</u>	<u>\$ 9,996,167</u>	<u>\$ 2,890,261</u>

This presentation does not include the lots sold to Camillo Properties, Ltd. (Camillo), a related party, as no deferral is made on these lots. The net profit on the purchases recognized from the lot sales recapped above is offset against “Cost of homes sold” in the accompanying Consolidated Statements of Operations.

Camillo, which has common ownership with Camcorp, has an agreement with Legend and Bella whereby Legend or Bella builds homes on lots owned by one of the Companies. A fee is not charged for this construction and upon completion, the homes are transferred to Camillo at the cost of construction plus lot cost, through the use of a related party receivable account. During 2018 and 2017, 38 and 18 such homes were transferred to Camillo at a total cost of \$7.6 million and \$6.8 million, respectively.

In 2013, Camillo started constructing its own homes that are to be used as rental properties. At that time, Camillo had no construction financing agreements, so it borrowed most of the funds needed for this construction from the Companies. Camillo has since obtained two financing construction agreements but it has not been sufficient to cover all of its construction and operational costs; as of December 31, 2018 and 2017, Camillo owed the Companies approximately \$14.1 million and \$13.9 million, respectively. Camcorp charges Camillo interest on this receivable by allocating a portion of its interest incurred on the bank debt to Camillo monthly; this allocation increases Camcorp’s receivable balance from Camillo. Camillo is charged interest based on its average receivable balance each month at the same rate that Camcorp is charged by the lender. During the years ended December 31, 2018 and 2017, Camcorp allocated \$1,009,942 and \$724,478, respectively, of its interest cost to Camillo.

The Companies pay consulting fees to the beneficiaries of the Trusts that own Camcorp for legal, financial and administrative services.

Anticipated MUD Reimbursements

Prior to 2013, the Companies did not book receivables for the anticipated reimbursements from Municipal Utility Districts (MUDs) for development infrastructure as management was not certain of the amounts to be collected and believed that the anticipated reimbursements were not material when compared to the financial statements taken as a whole. However, in 2013, management decided that the lots that were to be sold to Triton or Camillo for residential rental units should be

CAMCORP INTERESTS, LTD. AND SUBSIDIARIES

Notes to Financial Statements

December 31, 2018 and 2017

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reflected at cost net of anticipated MUD reimbursements such that the cost of the lots on the rental company's books agreed with the net cost incurred by the development company. Additionally, in 2017, the Companies began recording anticipated reimbursables for lots that were developed and transferred to Legend and Bella Vista. The MUD receivables for these internal transfers are recorded as the lot is transferred from the development company to the homebuilding company.

As of December 31, 2017, the Companies had \$7.7 million in anticipated MUD reimbursements included in accounts receivable. During 2018, the Companies collected \$3 million in such receivables and recorded approximately \$2.5 million in additional anticipated reimbursements for lots that were transferred to Camillo or to the homebuilding entities. It is anticipated that for those projects that are under active development or have actually been completed as of the end of December 2018, that an additional \$13.6 million in MUD receivables will be recorded as the lots are transferred from the developer to the ultimate user.

Fixed Assets

Fixed assets include an office building, residential rental properties, computers and other office equipment, office furniture, model home furniture and vehicles. These assets are stated at cost net of accumulated depreciation. Depreciation expense is provided using the straight-line method for the buildings and an accelerated method for other fixed assets, over their estimated useful lives. Depreciation expense for the years ended December 31, 2018 and 2017, was \$909,998 and \$794,501, respectively.

Interest

Camcorp charges its subsidiaries a monthly interest fee at a rate of 9% per annum based on their average asset balances at the end of each month; this fee includes the bank interest incurred by Camcorp which is allocated directly to the subsidiaries based on their outstanding payable to Camcorp at the end of each month. The difference in the bank interest that is allocated and the total fee charged by Camcorp is eliminated in consolidation. Interest incurred on bank debt and other notes payable approximated \$8.2 million and \$4.99 million during 2018 and 2017, respectively. During 2018 and 2017, interest of approximately \$1,982,000 and \$1,296,000, respectively, was capitalized to real estate inventories and approximately \$963,000 and \$611,000, respectively, flowed through cost of homes sold during the respective years. As discussed in the Related Party Transactions note, interest incurred by the Companies in 2018 and 2017, was reduced by the amount that was charged to Camillo as interest based on the amount it owed Camcorp during the respective year.

Warranty Reserves

Warranty reserves have been established by charging cost of homes sold and crediting a warranty liability for each home closed. The amounts charged are estimated by management to be adequate to cover expected warranty-related costs incurred during the unexpired warranty period. Legend's warranty cost accruals are based upon historical warranty experience and are adjusted as appropriate to reflect qualitative risks associated with the types of homes built. During 2018 and 2017, these warranty reserves were adjusted to reflect management's current estimate of such costs.

CAMCORP INTERESTS, LTD. AND SUBSIDIARIES

Notes to Financial Statements

December 31, 2018 and 2017

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The following sets forth the activity in the warranty reserve for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Beginning warranty reserves	\$ 808,066	\$ 698,854
Accruals during the year	916,755	756,401
Actual payments made	<u>(803,564)</u>	<u>(647,189)</u>
Ending warranty reserves	<u>\$ 921,257</u>	<u>\$ 808,066</u>

Customer Deposits

The Companies require earnest money deposits from outside purchasers of their homes or lots. These amounts are recorded as deposits until such time as the sale has closed and the funds are applied toward the purchase price.

Fair Value Measurement

The Financial Accounting Standards Board's (FASB) authoritative guidance for fair value measurement establishes a three-level hierarchy upon the inputs to the valuation of an asset or liability. The fair value hierarchy and its application to the Companies' assets and liabilities is as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are active, or by model-based techniques in which all significant inputs are observable in the market.

Level 3 – Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on the Companies' own estimates about the assumptions that market participants would use to value the asset or liability.

When available, the Companies use quoted market prices in active markets to determine fair value. The Companies consider the principal market and nonperformance risk associated with the Companies' counterparties when determining the fair value measurements, if applicable. Fair value measurements are used for the Companies' marketable securities and are used for real estate inventories on a non-recurring basis, when events and circumstances indicate that the carrying value may not be recoverable.

The fair value of financial instruments classified as assets or liabilities, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, construction debt, and customer deposits, approximate carrying value, principally because of the short maturity of those items.

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 and the disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The

CAMCORP INTERESTS, LTD. AND SUBSIDIARIES

Notes to Financial Statements

December 31, 2018 and 2017

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most significant estimates and assumptions are related to contingencies. Ultimate actual results could differ from these estimates.

Purchase Option Deposits

In the normal course of business, the Companies enter into non-specific performance option contracts to purchase improved lots that generally require an initial deposit that typically ranges between 5% to 20% of the stated purchase price. The option deposits are included in residential inventory. Management has reviewed the terms of the agreements and based on their understanding of such agreements and the provisions of FASB ASC 810-10 regarding variable interest entities (VIEs), management believes that the financial impact of any unconsolidated VIEs would not have a material effect on the financial statements. As of December 31, 2018, the Companies have entered into lot agreements with third parties to purchase approximately 1,689 lots at a base price of approximately \$49.7 million.

Subsequent Events

In accordance with ASC Topic 855, the Companies have evaluated subsequent events and transactions up to and including April 25, 2019, the date the financial statements were available to be issued and where necessary, have made the appropriate disclosures.

3. Real Estate Inventories

As of December 31, 2018 and 2017, real estate inventories consisted of the following:

	<u>2018</u>	<u>2017</u>
Homes:		
Models	\$ 10,037,612	\$ 10,690,257
Completed:		
Under contract for sale	16,812,546	7,696,560
Unsold	67,730,359	39,897,631
Under construction:		
Under contract for sale	13,562,442	14,809,772
Unsold	<u>45,850,220</u>	<u>57,588,230</u>
	153,993,179	130,682,450
Improved lots, land and land under development	170,438,367	145,960,521
Land held for investment	10,495,358	10,299,064
Land and lot deposits	<u>6,100,602</u>	<u>5,447,554</u>
	<u>\$ 341,027,506</u>	<u>\$ 292,389,589</u>

Certain of the real estate inventories serve as collateral for the construction debt.

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4. Investment in Subsidiaries

In addition to the consolidated subsidiaries that are included in these financial statements, Camcorp also holds a minority interest in several other entities. These investments are carried using the equity method whereby the investment accounts are increased by Camcorp's percentage of the entities' net income and reduced by distributions made by the entities to Camcorp. Most of these entities are involved in land development and Camcorp (or Legend) purchases (or plans to purchase) lots from these unconsolidated subsidiaries. The largest of these holdings relates to Eagle Star Texas, Ltd. (Eagle Star). Camcorp owns 49.5% of this company as well as 50% of Eagle Star's general partner. Eagle Star's unaudited financial statements as of December 31, 2018 and 2017, reflect total partners' equity of approximately \$7.1 million and \$8.9 million, respectively.

In 2013, Camcorp invested in a joint venture that was created to develop a 98-acre tract of land into lots. Camcorp loaned the joint venture more than \$3.4 million to acquire the land and initiate development. In 2016, the joint venture filed for bankruptcy; Camcorp's original intent was to pursue recovery of the property. However, in 2017, the land was purchased by a third party and Camcorp was repaid for all monies it had invested in the joint venture.

5. Debt

Construction Debt

In September 2017, the Companies entered into a new unsecured senior credit facility that allowed for total borrowings of \$175 million; the agreement was modified in 2018 to allow for total borrowings up to \$225 million. The revolving credit agreement is a syndicated arrangement with the Companies' prior lender serving as the syndication agent and a new lender serving as the administrative agent.

The credit facility is subject to a borrowing base that specifies the percentage of each category of real estate inventories that can be included in such base; the actual borrowings available are the lesser of the \$225 million or the borrowing base as specified. The credit facility matures in September 2021 and its interest rate varies with the LIBOR rate; as of December 31, 2018, the interest rate was 5.63%. The agreement is subject to certain periodic fees including a utilization fee based on the unused portion of the facility to be paid quarterly if more than 66.6% of the available credit is not being utilized.

The loan agreement contains certain restrictive covenants which require, among other things, a minimum net worth of \$160 million plus 25% of consolidated net income for each quarter starting with the quarter ending June 30, 2017; a maximum debt to equity ratio, as defined, of 1.25:1; a minimum interest coverage of 1.5:1; and minimum liquidity, as defined, of \$20 million. As of December 31, 2018, the Companies had \$168 million outstanding under this credit facility and were in compliance with the covenants specified above.

6. Income Taxes

The Companies are partnerships and, therefore, they are not required to record a provision (benefit) for federal income taxes in the accompanying financial statements. The liabilities for federal income taxes on taxable income of the Companies are liabilities of the owners.

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The Companies file income tax returns in the U.S. federal jurisdiction and the state of Texas. The Companies are no longer subject to U.S. federal, state and local examinations by tax authorities for the years before 2012. The Companies' tax returns from inception have not been examined and are subject to final determination by the Internal Revenue Service. Since many types of transactions are susceptible to varying interpretations under federal income tax laws and regulations, the amounts reported may be subject to change at a later date upon final determination by the Internal Revenue Service.

The Companies adopted the provisions of FASB ASC 740-10 regarding uncertainty in income taxes on January 1, 2008. The adoption of such provisions had no material effect on the Companies' financial statements.

The Texas franchise tax is based on gross margin; since the tax base on the franchise tax is derived from an income-based measure, the tax has characteristics of an income tax and as a result, the provisions of FASB ASC 740-10 regarding accounting for income taxes apply to this tax. In accordance with those provisions, the effect on deferred liabilities of a change in a tax law should be included in tax expense attributable to continuing operations in the period including the enactment date. The tax is computed at .75% of the gross profit of the Companies, adjusted for various exclusions to the Companies' revenue and cost of goods sold. The amount of franchise tax estimated for 2018 and 2017 is \$294,956 and \$167,955, respectively.

7. Commitments and Contingencies

Commitments and contingencies include the usual obligations of homebuilding and land development companies for the completion of contracts and those incurred in the ordinary course of business. The Companies are also involved in disputes and claims common in their business, and management believes that the disposition of such disputes and claims will not have a material effect on the Companies' financial position or results of operations.

Defined Contribution and Profit Sharing Plan

Legend has a defined contribution and profit sharing plan (the Plan). All full-time employees over 21 years of age are eligible to participate in the Plan after three months of employment and may join the Plan on the first day of January, April, July or October after eligibility requirements are met. Employees may elect to contribute up to 20% of their compensation for the defined contribution portion of the Plan. Legend is not required to, but at the discretion of management, may make contributions to the Plan. Legend's contributions for the years ended December 31, 2018 and 2017 were minimal.

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8. Fair Value Measurements

The Companies' marketable securities consist of corporate securities and cash and money market accounts. The fair value of the corporate securities is based on quoted prices for identical assets and therefore, they have been classified as a Level 1. The following table summarizes the Companies' assets and liabilities as of December 31, 2018 and 2017, measured at fair value on a recurring basis:

	Fair Value, December 31, 2018	
	Level 1	Total
Investment in marketable securities	<u>\$ 21,720,654</u>	<u>\$ 21,720,654</u>

	Fair Value, December 31, 2017	
	Level 1	Total
Investment in marketable securities	<u>\$ 25,240,188</u>	<u>\$ 25,240,188</u>

APPENDIX C

Specimen Municipal Bond Insurance Policy



BAM

**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

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN