HARRIS-MONTGOMERY COUNTIES MUNICIPAL UTILITY DISTRICT NO. 386

(A political subdivision of the State of Texas located within Harris and Montgomery Counties)

PRELIMINARY OFFICIAL STATEMENT
DATED: January 23, 2020

$11,180,000
UNLIMITED TAX BONDS
SERIES 2020

Bids Due: Thursday, February 27, 2020 at 11:00 A.M., Houston Time, in Houston, Texas
Bid Award: Thursday, February 27, 2020 at 2:00 P.M., Houston Time, in The Woodlands, Texas

MASTERSON ADVISORS LLC

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 23, 2020

THIS PRELIMINARY OFFICIAL STATEMENT is subject to completion and amendment and is intended solely for the solicitation of initial bids to purchase the Bonds. Upon sale of the Bonds, the OFFICIAL STATEMENT will be completed and delivered to the Underwriters.

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

THE BONDS HAVE NOT BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

NEW ISSUE-BOOK-ENTRY-ONLY

Underlying Rating: Moody's "Aa3"
See "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE" herein.

$11,180,000

HARRIS-MONTGOMERY COUNTIES MUNICIPAL UTILITY DISTRICT NO. 386

(A political subdivision of the State of Texas located within Harris and Montgomery Counties)

UNLIMITED TAX BONDS
SERIES 2020

Dated: March 1, 2020 **Due: September 1, as shown below**

The $11,180,000 Unlimited Tax Bonds, Series 2020 (the "Bonds") are being issued by Harris-Montgomery Counties Municipal Utility District No. 386 (the "District"). Principal of the Bonds is payable at maturity or prior redemption. Interest on the Bonds initially accrues from March 1, 2020, and is payable on September 1, 2020. Thereafter, interest on the Bonds accrues from the most recent interest payment date and is payable on each March 1 and September 1 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 mature and are subject to redemption prior to their maturity as shown below.

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

MATURITY SCHEDULE

Principal Amount(a)	Maturity (September 1)	CUSIP Number(c)	Interest Rate	Initial Reoffering Yield(d)	Principal Amount(a)	Maturity (September 1)	CUSIP Number(c)	Interest Rate	Initial Reoffering Yield(d)
$ 445,000	2020		%	%	$ 445,000	2033 (b)		%	%
450,000	2021				445,000	2034 (b)			
450,000	2022				445,000	2035 (b)			
450,000	2023				445,000	2036 (b)			
450,000	2024				445,000	2037 (b)			
450,000	2025				445,000	2038 (b)			
450,000	2026 (b)				445,000	2039 (b)			
450,000	2027 (b)				445,000	2040 (b)			
450,000	2028 (b)				445,000	2041 (b)			
450,000	2029 (b)				445,000	2042 (b)			
450,000	2030 (b)				445,000	2043 (b)			
450,000	2031 (b)				445,000	2044 (b)			
445,000	2032 (b)								

(a) The Underwriter (as herein defined) may designate one or more maturities as term bonds. See accompanying "OFFICIAL NOTICE OF SALE" and "OFFICIAL BID FORM."

(b) 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 unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS—Redemption Provisions."

(c) CUSIP Numbers will be assigned to the Bonds by CUSIP Service Bureau and will be included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter (as herein defined) shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(d) Initial Reoffering Yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.

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 upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Montgomery County, the City of Houston, The Woodlands Township, or any entity other than the District. **INVESTMENT IN THE BONDS IS SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."**

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about March 31, 2020.

Bids Due: Thursday, February 27, 2020, at 11:00 A.M., Houston Time, in Houston, Texas
Bid Award: Thursday, February 27, 2020, at 2:00 P.M., Houston Time, in The Woodlands, Texas

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC"), as amended and in effect on the date hereof, this document constitutes an Official Statement of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by SEC Rule 15c2-12.

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

This OFFICIAL STATEMENT 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 Schwartz, Page & Harding, L.L.P., Bond Counsel, 1300 Post Oak Boulevard, Suite 1400, Houston, Texas, 77056, upon payment of the costs of duplication therefor.

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 (as herein defined) and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT—Updating the Official Statement."

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 effective interest rate, which bid was tendered by ______________________ (the "Underwriter"), paying the interest rates shown on the cover page hereof, at a price of ___________% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of ___________% as calculated pursuant to Chapter 1204, Texas Government Code, as amended (the IBA method).

Prices and Marketability

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

The 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 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 municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein 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 other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

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

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.

FLOODING EVENTS AND HURRICANE HARVEY

2016 Weather Event… According to IDS Engineering Group (the "Engineer"), the District was impacted by flood waters resulting from significant rainfall events in the Spring Creek watershed on May 26 and 27, 2016. According to flood gauge data published by the Harris County Flood Control District, the flood water elevations in Spring Creek at Kuykendahl Road within the District were approximately three (3) feet higher than the 100-Year Flood Elevation defined by the Federal Emergency Management Agency Flood Insurance Rate Maps. The flood water caused street flooding within the District and the temporary closure of Kuykendahl Road and Gosling Road, the major north-south thoroughfares through the District, as well as Creekside Forest Drive and Creekside Green Drive, the local east-west collector roadways serving the District. These roadways were reopened on May 29, 2016.

The flood waters also caused the failure of Water Plant No. 2 and Sanitary Sewer Lift Station No. 2, both operated by Harris County Municipal Utility District No. 387 ("HCMUD 387") and used to provide service to the District (see "THE SYSTEM—Harris County"). These facilities were repaired and in full operation on or before June 8, 2016. Water and wastewater service in the District was maintained during and after the flood event.

According to The Woodlands Land Development Company, L.P. (the "Developer"), the flood waters caused structural flooding of approximately 6 of 4,557 completed homes at that time during this 2016 weather event within the District.

2017 Hurricane Harvey… The Houston area, including Harris and Montgomery Counties, sustained widespread rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District is located approximately 70 miles from the Texas Gulf Coast. Accordingly, like other coastal areas, land located in the District is susceptible to hurricanes, tropical storms, and other tropical disturbances.

According to the Engineer and Municipal District Services, LLC (the "Operator"), flood waters during the Hurricane Harvey event caused the failure of Water Plant No. 2 and Sanitary Sewer Lift Station No. 4 operated by HCMUD 387 (see "THE SYSTEM—Harris County"). Repairs to Water Plant No. 2 and Lift Station No. 4 by HCMUD 387 were completed in the fourth quarter of 2017. Equipment at Lift Stations Nos. 1 and 5 and the Wastewater Treatment Plant was also damaged by the flood waters with repairs completed soon after the event. Water and wastewater service in the District was maintained during and after the flood event.

According to the Developer and the Operator, the flood waters caused structural flooding of approximately 300 of 4,557 completed homes at the time of the Hurricane Harvey event within the District.

THE DISTRICT

Description... The District was created pursuant to Article XVI, Section 59, Texas Constitution, by Senate Bill No. 1775, passed by the 77th Texas Legislature, Regular Session, 2001, Chapter 1381, codified as Chapter 1872, Special District Local Laws Code, as amended, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is comprised of approximately 3,663 acres and is located primarily within Harris County (approximately 3,267 acres) with a small portion (approximately 396 acres) located within Montgomery County. The District and Flair Builders, LLC have entered into a Development, Financing and Annexation Agreement dated effective as of November 20, 2019, that contemplates the annexation of approximately 50 acres into the District.

Location... The District is located approximately 27 miles north of the central business district of the City of Houston, Texas and approximately 13 miles south of the City of Conroe, with portions of the District in both Harris County and Montgomery County. The District is accessible via Interstate Highway 45 and Woodlands Parkway to Gosling Road, to Farm-to-Market 2978 or Kuykendahl Road. The District is located within the extraterritorial jurisdiction of the City of Houston. The Harris County portion of the District is bordered on the north by Spring Creek and on the south by Augusta Pines, on the east by Gosling Road and on the west by Spring Creek. The Harris County portion of the District lies entirely within Tomball Independent School District. The Montgomery County portion of the District lies entirely within Magnolia Independent School District. The Montgomery County portion of the District is bordered on the north by Woodlands Parkway, on the south by Spring Creek, on the east by Montgomery County Municipal Utility District No. 46 and on the west by Farm-to-Market 2978. See "THE DISTRICT—General" and "—Description and Location."

The Woodlands… The District is a part of an approximate 28,000-acre community known as The Woodlands. Formal opening of The Woodlands occurred in 1974. Since inception, approximately 46,749 residential units and approximately 35 million square feet of commercial, retail, industrial, research technology and institutional facilities have been constructed. The Woodlands currently has an estimated population of 117,000 and an estimated 2,181 employers provide employment for over 51,000 people.

The Developer... The current developer of the District is The Woodlands Land Development Company, L.P. (the "Developer"), a limited partnership whose partners are owned by TWC Land Development, LLC and The Howard Hughes Corporation. The Developer has substantially completed its development activity within the District. See "THE DEVELOPER."

Status of Development… Approximately 2,489 acres (6,178 lots) have been developed as the single-family subdivisions of Village of Creekside Park, Creekside Park West, Creekside Carlton Woods and Village of Sterling Ridge. As of January 1, 2020, the District contained 5,536 completed homes (5,509 occupied), 242 homes under construction or in a builder's name and 400 vacant developed lots. The market value of homes in the District ranges from approximately $140,000 to in excess of $1,000,000.

Approximately 165 acres have been developed for commercial development. Commercial development in the District consists of the Broadmoor at Creekside Park, a 112-bed continuing care facility, First Bank of Conroe, a Walgreens, a 99,202 square foot HEB grocery store, various other retail establishments and The Village Center, a mixed-use development consisting of approximately 23,000 square feet of office space, 47,000 square feet of retail space and 4,700 square feet of restaurant space. In addition, there are 2 apartment complexes on approximately 28 acres consisting of 479 units. Tomball Independent School District owns approximately 40 acres where three elementary schools have been completed and approximately 39 acres where a junior high school is located. Lone Star College System owns an 11-acre site, where campus facilities have been completed. Additionally, approximately 19 acres consists of two churches and a fire station, all of which are exempt from taxation.

The remaining acreage within the District is comprised of approximately 22 undeveloped but developable acres and approximately 786 undevelopable acres and 64 acres of parks and recreation. See "THE DISTRICT—Status of Development."

The Builders… Homebuilders in the District include Westin Homes, Trendmaker Homes, Coventry Homes, Darling Homes, M/I Homes, J Kyle Homes, Shea Homes, Taylor Morrison, Toll Brothers, Partners in Building, and several custom homebuilders. See "THE DISTRICT—Homebuilding."

Payment Record... The District has previously issued eight series of unlimited tax bonds in the aggregate initial principal amount of $167,870,000 for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and three series of unlimited tax refunding bonds in the principal amount of $56,945,000, of which a total of $140,215,000 in principal amount collectively remains outstanding (the "Outstanding Bonds") as the date of the OFFICIAL STATEMENT. The District has not defaulted on any debt service payments related to its previously issued debt. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."

THE BONDS

Description... The $11,180,000 Unlimited Tax Bonds, Series 2020 (the "Bonds") are being issued as fully registered bonds pursuant to an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the District's Board of Directors (the "Board"). The Bonds are scheduled to mature serially on September 1 in the years 2020 through 2044, both inclusive. The Bonds will be issued in book-entry form only in denominations of $5,000 or integral multiples of $5,000. Interest on the Bonds accrues from March 1, 2020, and is payable on September 1, 2020, and on each March 1 and September 1 thereafter, until the earlier of maturity or prior redemption. See "THE BONDS."

Book-Entry-Only System... The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC or its designee. See "BOOK-ENTRY-ONLY SYSTEM."

Redemption... Bonds maturing on or after September 1, 2026, are subject to redemption at the option of the District in whole, or from time to time in part, prior to their maturity dates on September 1, 2025, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS—Redemption Provisions."

Use of Proceeds... Proceeds of the Bonds will be used to pay for engineering and construction costs shown herein under "USE AND DISTRIBUTION OF BOND PROCEEDS." In addition, Bond proceeds will be used to pay interest on funds advanced by the Developer on behalf of the District; and to pay engineering fees and administrative costs and certain other costs related to the issuance of the Bonds.

Authority for Issuance... The Bonds are the ninth series of bonds issued out of an aggregate of $282,000,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities in the District. The Bonds are issued by the District pursuant to said voter authorization and to the terms and provisions of the Bond Order; an order of the Texas Commission on Environmental Quality (the "TCEQ"), Article XVI, Section 59 of the Texas Constitution; and Chapters 49 and 54 of the Texas Water Code, as amended. See "THE BONDS—Authority for Issuance" and "—Issuance of Additional Debt" and "INVESTMENT CONSIDERATIONS—Future Debt."

Source of Payment... Principal of and interest on the Bonds and the Outstanding Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, Montgomery County, the City of Houston, The Woodlands Township or any entity other than the District. See "THE BONDS—Source and Security for Payment" and "—Funds."

Municipal Bond Rating and Municipal Bond Insurance... Moody's Investors Service ("Moody's") has assigned a credit rating of "Aa3" on the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The fee associated with the rating assigned to the District by Moody's will be paid by the District; however, the fee associated with ratings provided by other agencies will be at the expense of the Underwriter. See "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE."

Application has also been made for municipal bond insurance. If qualified, the purchase of municipal bond insurance is optional and at the expense of the Underwriter. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance."

Not Qualified Tax-Exempt Obligations... The District has not designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended.

Bond Counsel...	Schwartz, Page & Harding, L.L.P., Houston, Texas. See "MANAGEMENT OF THE DISTRICT—District Consultants" and "LEGAL MATTERS."
Disclosure Counsel…	McCall, Parkhurst & Horton LLP, Houston, Texas.
Financial Advisor…	Masterson Advisors LLC, Houston, Texas. See "MANAGEMENT OF THE DISTRICT—District Consultants."
Paying Agent/Registrar...	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS—Method of Payment of Principal and Interest."

INVESTMENT CONSIDERATIONS

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

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2019 Taxable Assessed Valuation	$3,011,544,749	(a)
Estimated Taxable Assessed Valuation as of October 1, 2019	$3,128,037,070	(b)
Gross Direct Debt Outstanding (including the Bonds)	$151,395,000	
Estimated Overlapping Debt	263,285,248	(c)
Gross Direct Debt and Estimated Overlapping Debt	$414,680,248	
Ratios of Gross Direct Debt to:		
2019 Taxable Assessed Valuation	5.03%	
Estimated Taxable Assessed Valuation as of October 1, 2019	4.84%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Taxable Assessed Valuation	13.77%	
Estimated Taxable Assessed Valuation as of October 1, 2019	13.26%	
Funds Available for Debt Service as of January 23, 2020	$14,426,082	
Funds Available for Operations and Maintenance as of January 23, 2020	$12,258,461	
Funds Available for Construction as of January 23, 2020	$319,801	
2019 Debt Service Tax Rate	$0.33	
2019 Maintenance Tax Rate	0.16	
2019 Total Tax Rate	$0.49	
Average Annual Debt Service Requirement (2020-2044)	$8,324,666	(d)
Maximum Annual Debt Service Requirement (2034)	$11,991,644	(d)
Tax Rate Required to Pay Average Annual Debt Service (2020-2044) at a 95% Collection Rate		
2019 Taxable Assessed Valuation	$0.30	(e)
Based upon Estimated Taxable Assessed Valuation as of October 1, 2019	$0.29	(e)
Tax Rate Required to Pay Maximum Annual Debt Service (2034) at a 95% Collection Rate		
2019 Taxable Assessed Valuation	$0.42	(e)
Based upon Estimated Taxable Assessed Valuation as of October 1, 2019	$0.41	(e)
Status of Development as of January 1, 2020 (f):		
Completed homes (5,509 occupied)	5,536	
Homes under construction or in the name of the builder	242	
Lots available for construction	400	
Commerical		(f)
Estimated population	19,281	(g)

(a) The District is located in both Harris County and Montgomery County. The Harris County Appraisal District ("HCAD") has certified $2,756,360,439 of taxable value for 2019 and an additional $1,672,596 remains uncertified and the Montgomery Central Appraisal District ("MCAD") has certified $253,511,714 of taxable value for 2019. Uncertified value is subject to downward revision prior to certification. HCAD and the MCAD are collectively referred to herein as the "Appraisal Districts."

(b) HCAD has provided an estimate of the taxable assessed valuation in the District as of October 1, 2019, of $2,872,394,162 and MCAD has provided an estimate of the taxable assessed valuation in the District as of October 1, 2019, of $255,642,908. Increases in value occurring between January 1, 2019, and October 1, 2019, will be assessed for purposes of taxation on January 1, 2020. No tax will be levied on estimated amounts until they are certified by HCAD and MCAD.

(c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "— Overlapping Taxes."

(d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

(e) See "TAX DATA—Tax Adequacy for Debt Service."

(f) See "THE DISTRICT—Status of Development."

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

PRELIMINARY OFFICIAL STATEMENT

HARRIS-MONTGOMERY COUNTIES MUNICIPAL UTILITY DISTRICT NO. 386

(A political subdivision of the State of Texas located within Harris and Montgomery Counties)

$11,180,000
UNLIMITED TAX BONDS
SERIES 2020

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris-Montgomery Counties Municipal Utility District No. 386 (the "District") of its $11,180,000 Unlimited Tax Bonds, Series 2020 (the "Bonds").

The Bonds are issued by the District pursuant to elections held within the District, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"); an order of the Texas Commission on Environmental Quality (the "TCEQ"), Article XVI, Section 59 of the Texas Constitution; and Chapters 49 and 54 of the Texas Water Code, as amended.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, The Woodlands Land Development Company, L.P. (the "Developer"), and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of certain of the documents may be obtained from Schwartz, Page & Harding, L.L.P., Bond Counsel, 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056, upon payment of duplication costs therefor.

THE BONDS

General

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

Description

The Bonds will be dated March 1, 2020, with interest payable on September 1, 2020, and on each March 1 and September 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from March 1, 2020, and thereafter, from the most recent Interest Payment Date. Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months. The Bonds mature on September 1 of the years and in the amounts and accrue interest at the rates shown under "MATURITY SCHEDULE" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of $5,000 or any integral multiple of $5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry-only system described herein. No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM."

Authority for Issuance

At elections held within the District on November 8, 2005 and November 7, 2006, voters in the District authorized a total of $282,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring water, sanitary sewer and drainage facilities. The Bonds represent the ninth issuance from said authorization and after issuance of the Bonds, a total of $102,950,000 in principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities will remain authorized but unissued. See "Issuance of Additional Debt" herein.

The Bonds are issued by the District pursuant to said elections, the terms and provisions of the Bond Order; an order of the TCEQ, Article XVI, Section 59 of the Texas Constitution; and Chapters 49 and 54 of the Texas Water Code, as amended.

Source and Security for Payment

The Bonds, together with the Outstanding Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See "TAXING PROCEDURES." Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this OFFICIAL STATEMENT with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Montgomery County, the City of Houston, The Woodlands Township or any political subdivision or entity other than the District.

Funds

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

Record Date

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

Redemption Provisions

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 equal to the principal amount thereof plus accrued interest thereon through the date fixed for redemption of such Bonds (the "Redemption Date"). If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY-ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date in the manner specified in the Bond Order.

By the Redemption Date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the Redemption Date. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Method of Payment of Principal and Interest

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

Registration

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

Replacement of Paying Agent/Registrar

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of $282,000,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, $293,500,000 in principal amount of unlimited tax bonds for refunding outstanding bonds of the District, and $11,500,000 in principal amount of unlimited tax bonds for recreational facilities, and could authorize additional amounts. After issuance of the Bonds, $102,950,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, $291,275,000 in principal amount of unlimited tax refunding bonds, and $11,500,000 in principal amount of bonds for the purpose of acquiring or constructing recreational facilities will remain authorized but unissued. The District's voters could authorize additional amounts.

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

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

Financing Recreational Facilities

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

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the TCEQ in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed $0.10 per $100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

At an election held within the District on November 8, 2005, voters in the District authorized $11,500,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities to serve the District. The District has not issued any bonds pursuant to such authorization.

Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

Financing Fire-Fighting Activities

The District is 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 District does not provide fire protection service, and the Board has not considered such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Financing Road Facilities

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the TCEQ for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ. Authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the TCEQ for "road powers" or calling such an election at this time. Issuance of bonds for roads could dilute the investment security for the Bonds.

Annexation and Incorporation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City of Houston hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever 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.

In addition, the District is located entirely within The Woodlands Township (the "Township"), a political subdivision of the State of Texas which overlaps substantially all of the territory of The Woodlands. The Township has entered into agreements with the City of Houston and the City of Conroe pursuant to which the Township may request, prior to November 16, 2057, that the area of the Township be excluded from the extraterritorial jurisdiction of either or both cities, and may thereafter be incorporated as a municipality or may adopt a new form of local government. In the event of incorporation of the Township, the incorporated municipality may dissolve the District and if dissolved, must assume the assets, obligations and liabilities of the District, including the Bonds. No representation is made concerning the eventual likelihood of incorporation of the Township, the dissolution of the District, or the ability of the incorporated municipality to make debt service payments should incorporation and dissolution occur.

Consolidation

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

Remedies in Event of Default

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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 is on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, 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 Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 a rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 (or the Trustee on behalf thereof) 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).

Principal, premium, if any, interest payments and redemption proceeds 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 Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds 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, 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. 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were approved by the TCEQ in its order authorizing the issuance of the Bonds. Non-construction costs are based upon either contract amounts or estimates of various costs by IDS Engineering Group. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and agreed-upon procedures are completed by an independent auditor. The surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ where required.

I.	**CONSTRUCTION COSTS**		
	• Constuction Costs Approved by the TCEQ	$	9,493,931
	• Engineering		692,961
	Total Construction Costs	**$**	**10,186,892**
II.	**NON-CONSTRUCTION COSTS**		
	• Underwriter's Discount (a)	$	223,600
	• Developer Interest		336,365
	Total Non-Construction Costs	**$**	**559,965**
III.	**ISSUANCE COSTS AND FEES**		
	• Issuance Costs and Professional Fees	$	395,693
	• State Regulatory Fees		37,450
	Total Issuance Costs and Fees	**$**	**433,143**
	TOTAL BOND ISSUE	**$**	**11,180,000**

(a) The TCEQ approved a maximum Underwriter's discount of 2.00%.

THE WOODLANDS

The District is a part of an approximate 28,000-acre community known as The Woodlands. Formal opening of The Woodlands occurred in 1974. Since inception, approximately 46,749 residential units and approximately 35 million square feet of commercial, retail, industrial, research technology and institutional facilities have been constructed. The Woodlands currently has an estimated population of approximately 117,000 and an estimated 2,181 employers provide employment for over 51,000 people.

THE DISTRICT

General

The District is a municipal utility district created pursuant to Article XVI, Section 59, Texas Constitution, by Senate Bill No. 1775, passed by the 77th Texas Legislature, Regular Session, 2001, Chapter 1381, codified as Chapter 8272, Special District Local Laws Code, as amended. The District operates pursuant to the provisions of Article XVI, Section 59, Texas Constitution, Chapters 49 and 54, Texas Water Code, as amended, and various general laws of the State applicable to municipal utility districts. The District, which lies within the extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the TCEQ.

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

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

Description and Location

At the time of creation, the District contained approximately 200 acres. The District has subsequently annexed approximately 3,463 acres of land and currently includes approximately 3,663 acres of land. The District and Flair Builders, LLC have entered into a Development, Financing and Annexation Agreement dated effective as of November 20, 2019, that contemplates the annexation of approximately 50 acres into the District.

The District is located primarily within Harris County (approximately 3,267 acres) with a small portion located within Montgomery County (approximately 396 acres), approximately 27 miles north of the central business district of the City of Houston, Texas and approximately 13 miles south of the City of Conroe. The District is accessible via Interstate Highway 45 and Woodlands Parkway to Gosling Road, to Farm-to-Market 2978 or Kuykendahl Road. The Harris County portion of the District is bordered on the north by Spring Creek and on the south by Augusta Pines, on the east by Gosling Road and on the west by Spring Creek. The Harris County portion of the District lies entirely within the Tomball Independent School District and the Montgomery County portion of the District is located within the Magnolia Independent School District. The Montgomery County portion of the District is bordered on the north by Woodlands Parkway, on the south by Spring Creek, on the east by Montgomery County Municipal Utility District No. 46 and on the west by Farm-to- Market 2978.

Status of Development

Of the approximate 3,663 acres of land within the District, approximately 2,489 acres (6,178 lots) have been developed as the single-family subdivisions of Village of Creekside Park, Creekside Park West, Creekside Carlton Woods, and Village of Sterling Ridge. As of January 1, 2020, the District contained 5,536 completed homes (5,509 occupied), 242 homes under construction or in a builder's name and 400 vacant, developed lots. The market value of homes in the District ranges from approximately $140,000 to in excess of $1,000,000.

Approximately 165 acres within the District have been developed for commercial use. Commercial development in the District consists of the Broadmoor at Creekside Park, a 112-bed continuing care facility, First Bank of Conroe, a Walgreens, a 99,202 square foot HEB grocery store, various other retail establishments and The Village Center, a mixed-use development consisting of approximately 23,000 square feet of office space, 47,000 square feet of retail space and 4,700 square feet of restaurant space. In addition, there are 2 apartment complexes on approximately 28 acres consisting of 479 units.

Tomball Independent School District owns approximately 40 acres where three elementary schools have been completed and approximately 39 acres where a junior high school has been constructed. Lone Star College System owns a 11-acre site, where campus facilities have been completed. The land owned by the Tomball Independent School District and Lone Star Consolidated Independent School District is not subject to taxation by the District. Additionally, approximately 19 acres consists of two churches and a fire station, all of which are exempt from taxation.

The remaining acreage within the District is comprised of approximately 22 undeveloped but developable acres and approximately 786 undevelopable acres and 64 acres of parks and recreation. The estimated population in the District as of November 1, 2019 is 19,281 based upon 3.5 persons per occupied single-family residence.

Homebuilding

Homebuilders include Westin Homes, Trendmaker Homes, Coventry Homes, Darling Homes, M/I Homes, J Kyle Homes, Shea Homes, Taylor Morrison, Partners in Building, Toll Brothers and several custom homebuilders.

THE DEVELOPER

Role of a Developer

In general, the activities of a landowner or developer in a 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. 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.

Investors in the Bonds should note that the prior real estate experience of the Developer and its affiliates should not be construed as an indication that further development within the District will occur, or that construction of additional 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. The District cautions that the development experience of the Developer or its affiliates was gained in different markets and under different circumstances than those that exist in the District, and the prior success of the Developer or its affiliates, if any, is no indication or guarantee that the Developer will be successful in the future development of land within the District.

The Developer

The current developer of The Woodlands, including the District, is The Woodlands Land Development Company, L.P. (the "Developer"), a limited partnership whose partners are wholly owned by TWC Land Development, LLC and The Howard Hughes Corporation, a Delaware corporation ("HHC"). HHC is a public company whose stock is traded on the New York Stock Exchange under the symbol HHC.

While The Howard Hughes Corporation indirectly owns the Developer, it is not responsible for the Developer's obligations. According to representatives of the Developer, it is a stand-alone, locally operated and managed company.

The Developer has substantially completed all of its development activity within the District. The Developer is under no obligation to develop its property in the District and may sell its property to another party or parties at any time. Neither the Developer nor any affiliate of the Developer has guaranteed payment of the Bonds.

Litigation

In May 2018, a lawsuit was filed in Harris County, Texas on behalf of 521 homeowners in the District against The Woodlands Land Development Company LP, The Howard Hughes Corporation, LJA Engineering Inc., and James R. Bowles alleging that the design of the Timarron and Timarron Lakes subdivisions within the District ignored the flood plain history and allowed homes to be built at inadequate elevations. The lawsuit is styled Jason Alexander et al v. The Woodlands Land Development Company, et al. The District is not a party to the lawsuit. See "INVESTMENT CONSIDERATIONS—Flooding within the District's Boundaries, Including Events Related to Hurricane Harvey."

MANAGEMENT OF THE DISTRICT

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 staggered terms and elections are held in May in even numbered years. All of the Board members reside within the District. The current members and officers of the Board, along with their titles and terms, are listed as follows:

Name	District Board Title	Term Expires
F. Emil Jacobs	President	May 2020
Christopher Boyer	Vice President	May 2022
Anthony J. Compofelice	Secretary/Treasurer	May 2020
Eric Politte	Assistant Vice President	May 2020
Daniel R. Barbuto	Assistant Secretary/Treasurer	May 2022

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

Financial Advisor: Masterson Advisors LLC serves as the District's Financial Advisor (the "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.

Engineers: The District's consulting engineers are IDS Engineering Group and LJA Engineering, Inc. (collectively, the "Engineers"). The Engineers have also been employed by the Developer in connection with certain planning activities and the design of certain streets and related improvements within the District.

Auditor: The District's financial statements for the year ended March 31, 2019, were audited by Knox Cox & Company, L.L.P., Certified Public Accountants. See "APPENDIX A" for a copy of the District's March 31, 2019, financial statements. The District did not request Knox Cox & Company, L.L.P. to perform any updating procedures subsequent to the date of its audit report on the March 31, 2019, financial statements.

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

Utility System Operator: The District's Operator is Municipal District Services, LLC.

Tax Appraisal: The Harris County Appraisal District and the Montgomery Central Appraisal District have the responsibility of appraising all property within their respective boundaries within the District. The Harris County Appraisal District and the Montgomery Central Appraisal District are referred to herein as the "Appraisal Districts." See "TAXING PROCEDURES."

Tax Assessor/Collector: The District's Tax Assessor/Collector is Mr. Tim Spencer of Ad Valorem Appraisals, Inc. (the "Tax Assessor/Collector"). The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Appraisal Districts and bills and collects such levy.

THE SYSTEM

Harris County

The District has entered into a long-term agreement with Harris County Municipal Utility District No. 387 ("HCMUD 387") for provision of financing, operation and maintenance of master water and sanitary sewer facilities to serve the Harris County portion of the District. HCMUD 387 operates the central water plants, wastewater treatment plants and major water distribution and wastewater transportation facilities which serve the developed portions of the District within Harris County.

Water Supply and Distribution: The central water supply facilities presently consist of Water Plant No. 1, Water Plant No. 2, and Water Plant No. 3. Water Plant No. 1 consists of two 1,000 gallons per minute ("gpm") water wells, two 500,000 gallon ground storage tanks, booster pump station with installed capacity of 5,500 gpm, two 15,000 gallon pressure tanks, chlorination facilities and related appurtenances. Water Plant No. 2 consists of two 1,000 gpm water wells, two 500,000 gallon ground storage tanks, booster pump station with installed capacity of 5,500 gpm, two 15,000 gallon pressure tanks, chlorination facilities and related appurtenances. Water Plant No. 3 consists of one 1,500 gpm water well, one 1,300 gpm water well, two 500,000 gallon ground storage tanks, booster pump station with installed capacity of 7,000 gpm, three 15,000 gallon pressure tanks, chlorination facilities and related appurtenances. The central water distribution facilities originating at the three plants consist of a looped network of mains and secondary feeders ranging from 4 to 16 inches in diameter. The District has paid for and purchased 5,140 equivalent single-family connections ("ESFCs") of water capacity from HCMUD 387 to serve the Harris County portion of the District. According to the District Operator, as of January 1, 2020, the District was serving 5,253 active connections in Harris County (including 4,745 completed homes and 242 homes under construction or in a builder's name). A portion of the proceeds of the Bonds will be used by the District to pay for the additional 113 ESFCs of water capacity from HCMUD 387 to serve the remaining active connections in the District, plus an additional 2,747 ESFCs of water capacity to serve ultimate development in the Harris County portion of the District.

Wastewater Collection and Treatment: A central sanitary sewer system is located on the eastern side of the District on Gosling Road, with total capacity of 1.8 million gallons per day ("MGD") (approximately 8,000 ESFCs) with provisions to increase the capacity to 3.0 MGD. The wastewater collection system within the District consists of a network of collection lines which transports wastewater to the treatment facilities. The District has previously paid for and purchased 5,140 ESFCs of sanitary sewer capacity from HCMUD 387 to serve the Harris County portion of the District. As of January 1, 2020, the District was serving 5,253 active connections in Harris County (including 4,745 completed homes and 242 homes under construction or in a builder's name). A portion of the proceeds of the Bonds will be used by the District to pay for the additional 113 ESFCs of sanitary sewer capacity from HCMUD 387 to serve the remaining active connections in the District, plus an additional 2,747 ESFCs of sanitary sewer capacity to serve ultimate development in the Harris County portion of the District.

Harris/Galveston Subsidence District: The Harris County portion of the District is located within the boundaries of Area 3 of the Harris-Galveston Subsidence District (the "Subsidence District"), the entity which regulates groundwater withdrawal in Harris and Galveston Counties. HCMUD 387's ability to pump groundwater from its wells is subject to annual permits issued by the Subsidence District. On April 14, 1999, the Subsidence District adopted a Regulatory Plan (the "Regulatory Plan") to reduce groundwater withdrawal through conversion to surface water use by the areas within the Subsidence District's boundaries. Under the Regulatory Plan, areas within Area 3 of the Subsidence District's boundaries were required to convert to 30% surface water by 2010, and must convert to 60% surface water by 2025 and 80% surface water by 2035. Water permittees, including HCMUD 387, are required to adopt and implement a groundwater reduction plan to meet the schedule for surface water conversion.

The Harris County portion of the District is also located within the boundaries of the North Harris County Regional Water Authority (the "Water Authority"). The Water Authority was created to accomplish the conversion to surface water by entities within the Subsidence District's Area 3 in accordance with the Subsidence District's Regulatory Plan. To implement the required conversion to surface water in accordance with the Subsidence District's Regulatory Plan, the Water Authority has adopted a ground water reduction plan providing for the design, construction and operation of a network of surface water transmission lines, storage tanks, and pumping stations to transport and distribute surface water to the areas within the Water Authority's boundaries (the "Surface Water Facilities"). The Water Authority has also contracted with the City of Houston to secure a long-term supply of surface water. To obtain funding to accomplish its purposes, the Water Authority is currently assessing a groundwater pumpage fee in the amount of $3.85 per 1,000 gallons of water which applies to certain water well permittees in its boundaries, including HCMUD 387. The Water Authority has sold its Senior Lien Revenue Bonds to finance costs related to the design, acquisition and construction of Phase 1 of the Surface Water Facilities and to refinance a portion of bonds previously sold. The Water Authority bonds are secured by revenues of the Water Authority, including the groundwater pumpage fee. The groundwater pumpage fee is expected to increase in the future.

HCMUD 387 is required to pay for its share of the cost to acquire, design, construct and operate the Surface Water Facilities, which cost will be passed through to the District pursuant to its agreement with HCMUD 387. The District's share of the cost of the Surface Water Facilities is being paid through the pumpage fee. For future phases of the Surface Water Facilities, current rules of the Water Authority allow HCMUD 387 to elect to pay for its share of the costs of the Surface Water Facilities through upfront capital contributions, which may be financed by either HCMUD 387 or the District through the issuance of bonds.

Storm Drainage: The land within the District and in Harris County generally drains north and northwest, through a series of natural drainage ways thence to Spring Creek.

Montgomery County

General: The revised general plan of the Developer contemplates the establishment of central or regional systems whereby sanitary sewage would be collected and treated within three identifiable regions. The San Jacinto River Authority ("SJRA") has entered into a long-term cooperative agreement with the Developer for the planning, financing, construction, ownership, operation and maintenance of the water supply and sanitary sewage treatment facilities serving The Woodlands, including the Montgomery County portion of the District. The SJRA owns the existing central water plants, wastewater treatment plants and major water distribution and wastewater transportation facilities which serve the developed portions of The Woodlands, including the Montgomery County portion of the District. The District and neighboring Montgomery County Municipal Utility District Nos. 6, 7, 36, 39, 40, 46, 47, 60, and 67, The Woodlands MUD 2, and Metro Center MUD have entered into agreements with SJRA for the financing, construction, and operation of central water supply and wastewater treatment facilities for all twelve districts. Under these agreements, each district, as a customer of SJRA, has made or will make or finance capital payments to SJRA proportionate to the costs of facilities construction and its ultimate service needs, and each makes payments to SJRA for operation and maintenance expenses in proportion to its volume of usage. These payments were based on estimated unit costs for such capacities and are made subject to such adjustments as may be necessary at the time when a periodic accounting for such costs can be made.

Water Supply and Distribution: Water for the Montgomery County portion of the District is supplied from ground water wells located within The Woodlands and surface water from Lake Conroe.

The central water supply facilities within The Woodlands presently consist of Water Plant Nos. 1, 2, 3, 4, and 5 and six elevated storage tanks (EST Nos. 1, 2, 3, 4, 5, and 7). The central water distribution facilities originating at the five water plants consist of a looped network of mains and secondary feeders sized to supply peak day demands and emergency requirements. Water distribution within the participant districts is accomplished through a looped network of mains, secondary feeders, and neighborhood distribution lines.

According to the Fifth Supplemental Agreement between the District and SJRA, the District has purchased 923 single-family dwelling units equivalents ("SFDUE's") of water capacity from SJRA to serve the Montgomery County portion of the District. According to the District Operator, as of January 1, 2020, the District was serving 806 active connections in Montgomery County (including 791 completed homes).

Sixth and Final Accounting: SJRA provides a periodic accounting to each customer district showing the actual and projected future unit cost of purchasing capacities in SJRA's Systems and the amounts payable to SJRA for reserved capacities in SJRA's Systems. Each customer district is then responsible for issuing its bonds, utilizing other district revenues or participating in a joint bond issue with other similarly situated districts to secure sufficient funds to make such payments to SJRA. Based upon the sixth and final accounting, it has been determined that certain customer districts (including the District) will not need to purchase additional capacity to serve ultimate development within their boundaries (including the Montgomery County portion of the District).

Lone Star Groundwater Conservation District: The Montgomery County portion of the District is included in the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"), a Montgomery County-wide regulatory agency. LSGCD has adopted a regulatory plan which requires groundwater users within Montgomery County to reduce groundwater usage by thirty percent (30%) by January 1, 2016. In order to meet the requirements of the LSGCD, the District and SJRA were required to partially convert to surface water sources by such date. SJRA has created separate non-profit operating divisions, including the SJRA's Groundwater Reduction Plan Division (the "SJRA GRP Division") and the SJRA's Woodlands Division (the "SJRA Woodlands Division"), to implement a groundwater reduction plan and treated surface water system for substantially all of Montgomery County, including the Montgomery County portion of the District. In order to comply with the January 1, 2016 conversion date set forth in LGCD's regulatory plan, blended ground and surface water are now being delivered to groundwater users within Montgomery County, including the Montgomery County portion of the

District. The direct costs to the SJRA GRP Division for the first phase of such conversion to surface water sources were approximately $552,000,000, which are paid for through pumpage fees charged to the participants, including the SJRA Woodlands Division. Effective as of September 1, 2019, the SJRA GRP Division began charging the SJRA Woodlands Division a fee and such fees are currently $2.73 per 1,000 gallons of groundwater pumped and $3.15 per 1,000 gallons of surface water delivered. The SJRA Woodlands Division passes through a blended surface water conversion fee rate to the District of $2.88 per 1,000 gallons of water delivered to the District.

Wastewater Collection and Treatment: A central sanitary sewage treatment plant exists in each of the three regions within The Woodlands. This plan is in general conformity with the Water Quality Management Plan developed by the Houston-Galveston Area Council ("H-GAC") for the Lake Houston area as part of its overall conceptual study of regional sanitary sewage systems for the eight county H-GAC area. The plan adheres to the objectives of the H-GAC plan for the regional system and, at the same time, provides additional flexibility necessary to meet future changes in the service area and the final implementation of a regional plan. The sanitary sewage load for full development has been recently estimated at 12.8 MGD for the three central plants. The first central wastewater treatment plant of SJRA ("WWTP1") is located adjacent to MCMUD 6 along Sawdust Road and currently has capacity of 7.8 MGD. The second wastewater treatment plant ("WWTP2") is located west of the intersection of Gosling Road and Research Forest Drive. WWTP2 has a permitted capacity of 6.0 MGD with provisions to increase to 7.8 MGD. The third wastewater treatment plant ("WWTP3") is located in MCMUD 39 and has a permitted capacity of 900,000 gallons per day. This collection system empties wastewater into trunk sewers, a part of the SJRA central system, which transports wastewater to the treatment facilities.

According to the Fifth Supplemental Agreement between the District and SJRA, the District has purchased 1,036 SFDUE's of sanitary sewer capacity from SJRA to serve the Montgomery County portion of the District. According to the District Operator, as of January 1, 2020, the District was serving 793 active connections in Montgomery County (including 791 completed homes).

Storm Drainage: The land within the District and in Montgomery County drains through a series of designated channels out falling into Dry Creek, then ultimately into Spring Creek.

Internal Water Distribution, Wastewater Collection and Storm Drainage Facilities

Water distribution, wastewater collection, and storm drainage facilities have been constructed in the District to serve 6,178 single-family residential lots, two apartment complexes (479 units), approximately 165 acres of commercial development and approximately 90 acres of school and college sites. See "THE DISTRICT," "—Status of Development," and "—Future Development."

100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a 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. There is currently developable acreage within the District officially within the 100-year flood plain according to the Federal Emergency Management ("FEMA") Flood Insurance Rate Maps and the Engineer. Approximately 23 lots in Creekside Park are partially within the mapped 100-year flood plain. Pad sites on these lots were filled and removed from the 100-year floodplain via LOMR-F. The remainder of the lot areas that remained after the pad sites were filled are either partially or fully within the mapped 100-year flood plain. The land within the District and in Harris County generally drains north and northwest, through a series of natural drainage ways thence to Spring Creek. The land within the District and in Montgomery County drains through a series of designated channels out falling into Dry Creek, then ultimately into Spring Creek. Water surface elevations in Spring Creek adjacent to the District exceeded the 100-year flood elevations during the significant rainfall event in May of 2016 and Hurricane Harvey in 2017. The District is aware of structural flooding in approximately 6 homes in 2016 and approximately 300 homes in 2017 due to Hurricane Harvey. The drainage facilities in the sections which these homes were located were designed based on local regulatory requirements. See "INVESTMENT CONSIDERATIONS—Hurricane Harvey."

Water and Wastewater Operations

The Outstanding Bonds and the Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenue from operations of the District's system, if any, are available for any legal purpose, including, upon Board action, the payment of debt service on the Bonds and the Outstanding Bonds. It is anticipated that no significant operation revenues will be used for debt service on the Bonds or the Outstanding Bonds in the foreseeable future.

The following statement sets forth in condensed form the General Operating Fund for the District as shown in the District's audited financial statements for the years ended March 31, 2015 through March 31, 2019, and an unaudited summary as of December 31, 2019, provided by the bookkeeper. Such figures are included for informational purposes only. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

	Unaudited	Fiscal Year Ended				
	4/1/2019 to 12/31/2019 (a)	3/31/2019	3/31/2018	3/31/2017	3/31/2016	3/31/2015
Revenues:						
Property Taxes	$2,032,302	$ 2,348,217	$ 1,791,011	$ 1,451,955	$ 1,308,704	$ 1,107,268
Service Revenues	5,915,587	5,835,224	5,571,745	4,609,031	3,658,329	3,252,470
Penalty and Interest	51,599	57,038	54,046	68,865	86,451	62,220
Tap Connection and Sewer	760,769					
Inspection		536,360	604,868	344,958	498,986	1,397,736
Investment Income and Other	155,875	484,311	177,770	142,652	297,490	279,510
Total Revenue	$ 8,916,132	$ 9,261,150	$ 8,199,440	$ 6,617,461	$ 5,849,960	$ 6,099,204
Expenditures:						
Current Expenditures	$7,521,410	$ 8,200,991	$ 8,698,123	$ 7,010,660	$ 6,216,905	$ 5,486,404
Capital Outlay	299,430	69,661	121,221	-	-	-
Total Expenditures	$ 7,820,840	$ 8,270,652	$ 8,819,344	$ 7,010,660	$ 6,216,905	$ 5,486,404
NET REVENUES	$ 1,095,292	$ 990,498	$ (619,904)	$ (393,199)	$ (366,945)	$ 612,800
Other Financing Sources	0	$ 9,500	$ 45,000	$ -	$ -	$ -
General Operating Fund Balance (Beginning of Year)	$ 10,004,050	$ 9,004,052	$ 9,578,956	$ 9,972,155	$ 10,339,100	$ 9,726,300
General Operating Fund Balance (End of Year)	$ 11,099,342	$ 10,004,050	$ 9,004,052	$ 9,578,956	$ 9,972,155	$ 10,339,100

(a) Unaudited. Provided by the bookkeeper.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Taxable Assessed Valuation	$3,011,544,749	(a)
Estimated Taxable Assessed Valuation as of October 1, 2019	$3,128,037,070	(b)
Gross Direct Debt Outstanding (including the Bonds)	$151,395,000	
Estimated Overlapping Debt	263,285,248	(c)
Gross Direct Debt and Estimated Overlapping Debt	$414,680,248	
Ratios of Gross Direct Debt to:		
2019 Taxable Assessed Valuation	5.03%	
Estimated Taxable Assessed Valuation as of October 1, 2019	4.84%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Taxable Assessed Valuation	13.77%	
Estimated Taxable Assessed Valuation as of October 1, 2019	13.26%	
Funds Available for Debt Service as of January 23, 2020	$14,426,082	
Funds Available for Operations and Maintenance as of January 23, 2020	$12,258,461	
Funds Available for Construction as of January 23, 2020	$319,801	

(a) The District is located in both Harris County and Montgomery County. The Harris County Appraisal District ("HCAD") has certified $2,756,360,439 of taxable value for 2019 and an additional $1,672,596 remains uncertified and the Montgomery Central Appraisal District ("MCAD") has certified $253,511,714 of taxable value for 2019.

(b) HCAD has provided an estimate of the taxable assessed valuation in the District as of October 1, 2019, of $2,872,394,162 and MCAD has provided an estimate of the taxable assessed valuation in the District as of October 1, 2019, of $255,642,908. Increases in value occurring between January 1, 2019 and October 1, 2019 will be assessed for purposes of taxation on January 1, 2020. No tax will be levied on estimated amounts until they are certified by HCAD and MCAD.

(c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "— Overlapping Taxes."

Investments of the District

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

Outstanding Bonds

The District has previously issued eight series of unlimited tax bonds for acquiring or constructing water, sanitary sewer, and drainage facilities and three series of unlimited tax refunding bonds. The following table lists the original principal amount of such bonds by series and the principal amount of such bonds that remain outstanding (the "Outstanding Bonds") as of the date hereof.

Series		Original Principal Amount	Outstanding Bonds
2009		$ 21,230,000	$ -
2010		29,775,000	-
2011		20,400,000	1,335,000
2012		23,260,000	19,255,000
2014		24,785,000	21,395,000
2014A		28,470,000	24,930,000
2015	(a)	15,855,000	15,355,000
2015A		9,150,000	7,675,000
2016	(a)	25,570,000	24,655,000
2017	(a)	15,520,000	15,285,000
2018		10,800,000	10,330,000
Total		$ 224,815,000	$ 140,215,000

(a) Unlimited tax refunding bonds.

Debt Service Schedule

The following sets forth the debt service on the Outstanding Bonds and the estimated debt service on the Bonds at an estimated interest rate per annum of 3.25%.

Year	Outstanding Debt Service	Plus: Debt Service on the Bonds Principal	Interest	Total	Total Debt Service
2020	$ 10,644,525.00	$ 445,000	$ 335,400.00	$ 780,400.00	$ 11,424,925.00
2021	10,693,600.00	450,000	429,400.00	879,400.00	11,573,000.00
2022	10,742,450.00	450,000	411,400.00	861,400.00	11,603,850.00
2023	10,817,950.00	450,000	393,400.00	843,400.00	11,661,350.00
2024	10,862,787.50	450,000	375,400.00	825,400.00	11,688,187.50
2025	10,936,662.50	450,000	357,400.00	807,400.00	11,744,062.50
2026	10,999,587.50	450,000	339,400.00	789,400.00	11,788,987.50
2027	11,058,481.26	450,000	321,400.00	771,400.00	11,829,881.26
2028	11,116,000.00	450,000	303,400.00	753,400.00	11,869,400.00
2029	11,169,475.00	450,000	285,400.00	735,400.00	11,904,875.00
2030	11,217,362.50	450,000	267,400.00	717,400.00	11,934,762.50
2031	11,238,681.26	450,000	249,400.00	699,400.00	11,938,081.26
2032	11,296,181.26	445,000	231,400.00	676,400.00	11,972,581.26
2033	11,326,556.26	445,000	213,600.00	658,600.00	11,985,156.26
2034	11,350,843.76	445,000	195,800.00	640,800.00	11,991,643.76
2035	7,712,056.26	445,000	178,000.00	623,000.00	8,335,056.26
2036	6,302,362.50	445,000	160,200.00	605,200.00	6,907,562.50
2037	4,675,218.76	445,000	142,400.00	587,400.00	5,262,618.76
2038	2,872,050.00	445,000	124,600.00	569,600.00	3,441,650.00
2039	2,856,425.00	445,000	106,800.00	551,800.00	3,408,225.00
2040	876,943.76	445,000	89,000.00	534,000.00	1,410,943.76
2041	481,856.26	445,000	71,200.00	516,200.00	998,056.26
2042	-	445,000	53,400.00	498,400.00	498,400.00
2043	-	445,000	35,600.00	480,600.00	480,600.00
2044	-	445,000	17,800.00	462,800.00	462,800.00
Total	$ 191,248,056.34	$ 11,180,000	$ 5,688,600.00	$ 16,868,600.00	$ 208,116,656.34

Average Annual Debt Service Requirements (2020-2044) $8,324,666
Maximum Annual Debt Service Requirement (2034) $11,991,644

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 the purposes of 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	Overlapping Amount
Harris County	$ 2,042,497,125	9/30/2019	0.70%	$ 14,297,480
Montgomery County	522,350,000	9/30/2019	5.20%	27,162,200
Harris County Flood Control District	83,075,000	9/30/2019	0.70%	581,525
Harris County Hospital District	57,300,000	9/30/2019	0.70%	401,100
Harris County Department of Education	6,320,000	9/30/2019	0.70%	44,240
Port of Houston Authority	593,754,397	9/30/2019	0.70%	4,156,281
Tomball Independent School District	506,425,000	9/30/2019	23.01%	116,528,393
Magnolia Independent School District	175,615,000	9/30/2019	5.44%	9,553,456
Lone Star College System	579,645,000	9/30/2019	14.20%	82,309,590
The Woodlands Township	55,080,000	9/30/2019	14.98%	8,250,984
	Total Estimated Overlapping Debt			$ 263,285,248
	Direct Debt (a)			151,395,000
	Total Direct and Estimated Overlapping Debt			$ 414,680,248

Direct and Estimated Overlapping Debt as a Percentage of:
2019 Taxable Assessed Valuation of $3,011,544,749 .... 13.77%
Estimated Taxable Assessed Valuation as of October 1 of $3,128,037,070 .... 13.26%

(a) Includes the Bonds and the Outstanding Bonds.

Overlapping Taxes

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

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

	Tax Rate per $100 of Assessed Valuation: Harris County	Tax Rate per $100 of Assessed Valuation: Montgomery County
The District	$ 0.490000	$ 0.490000
Magnolia Independent School District	-	1.309500
Tomball Independent School District	1.290000	-
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority	0.616700	-
Montgomery County	-	0.447500
Montgomery County Hospital District	-	0.058900
The Woodlands Township	0.224000	0.224000
Lone Star College System	0.107800	0.107800
Harris County ESD No. 11	0.047500	0.047500
Total Tax Rate	$ 2.776000	$ 2.685200

TAX DATA

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See "Tax Rate Distribution" and "Tax Roll Information" below, and "TAXING PROCEDURES" and "INVESTMENT CONSIDERATIONS—Economic Factors and Interest Rates."

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, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was held on November 7, 2006, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed $1.25 per $100 of taxable assessed valuation for general operations and maintenance costs. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See "Debt Service Tax" above.

Tax Exemptions

For the tax year 2019, the District has adopted an exemption of $20,000 of the appraised value of residential homesteads of individuals who are sixty-five (65) years of age or older or who are under a disability for purposes of disability benefits. See "TAXING PROCEDURES—Property Subject to Taxation by the District."

Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service Tax	$0.330	$0.380	$0.400	$0.410	$0.410
Maintenance Tax	0.160	0.085	0.065	0.055	0.055
Total District Tax Rate	$0.490	$0.465	$0.465	$0.465	$0.465

Historical Tax Collections

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

Tax Year	Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy	Total Collections As of 12/31/19 (b) Amount	Percent
2014	$ 1,869,305,113	$ 0.500	$9,346,487	$ 9,342,748	99.96%
2015	2,370,497,661	0.465	11,022,816	11,017,304	99.95%
2016	2,661,418,864	0.465	12,375,619	12,369,431	99.95%
2017	2,737,156,649	0.465	12,727,778	12,718,869	99.93%
2018	2,824,009,440	0.465	13,108,367	13,058,555	99.62%
2019	3,011,544,749	0.490	14,677,849	(c)	(c)

(a) As certified by the Appraisal Districts. See "Tax Roll Information" below .
(b) Unaudited.
(c) In the process of collection. Taxes for the 2019 tax year are due January 31, 2020.

Tax Roll Information

The District's taxable 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. The District is located in both Harris County and Montgomery County. The Harris County Appraisal District ("HCAD") has certified $2,756,360,439 of taxable value and an additional $1,672,596 remains uncertified and the Montgomery Central Appraisal District ("MCAD") has certified $253,511,714 of taxable value. The uncertified amount is subject to downward adjustment prior to certification. HCAD and MCAD have also provided estimates of value as of October 1, 2019, in the amount of $2,872,394,162 and $255,642,908, respectively. Any increases in value occurring between January 1, 2019 and October 1, 2019, will be certified for purposes of taxation on January 1, 2020. See "TAXING PROCEDURES" and "INVESTMENT CONSIDERATIONS—Flooding within the District's Boundaries, Including Events Related to Hurricane Harvey."

	Type of Property			Gross	Deferments		Net
Tax Year	Land	Improvements	Personal Property	Assessed Valuation	and Exemptions	Uncertified Value	Assessed Valuation
2015	$ 659,714,754	$ 1,861,788,398	$ 30,902,623	$ 2,552,405,775	$ (181,908,114)	$ -	$ 2,370,497,661
2016	714,346,590	2,071,657,334	28,902,190	2,814,906,114	(153,487,250)	-	2,661,418,864
2017	731,820,546	2,119,177,653	21,039,631	2,872,037,830	(134,881,181)	-	2,737,156,649
2018	708,983,829	2,213,158,953	29,406,615	2,951,549,397	(127,539,957)	-	2,824,009,440
2019	746,063,974	2,397,305,166	25,207,648	3,168,576,788	(158,704,635)	1,672,596	3,011,544,749

Principal Taxpayers

The following table represents the principal taxpayers, the taxable assessed value of such property, and such property's taxable assessed value as a percentage of the certified portions ($3,009,872,153) of the 2019 Taxable Assessed Valuation of $3,011,544,749. This represents ownership as of January 1, 2019. Complete and accurate principal taxpayers list related to the uncertified portion ($1,672,596) of the 2019 Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of October 1, 2019, of $3,128,037,070 are not available.

Taxpayer	2019 Certified Taxable Assessed Valuation	% of 2019 Certified Taxable Assessed Valuation
Woodlands Land Development (a)	$ 33,050,106	1.10%
CS Apartments Holding Company LLC	33,012,175	1.10%
CSPV Holdings LLC	22,610,217	0.75%
HEB Grocery	18,697,838	0.62%
Darling Homes of Texas LLC(b)	13,084,226	0.43%
CW Operating Company Inc.	11,137,567	0.37%
First Creekside Capital Funding LLC	9,827,210	0.33%
Creekside 2012 Commercial LLC	7,260,962	0.24%
Woodlands GL Holdings LLC	6,797,355	0.23%
Taylor Morrison of Texas Inc. (b)	6,584,605	0.22%
Total	$ 162,062,261	5.39%

(a) See "THE DEVELOPER."
(b) See "THE DISTRICT—Homebuilding."

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per $100 of taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements on the Bonds and the Outstanding Bonds if no growth in the District's tax base occurred beyond the 2019 Taxable Valuation of $3,011,544,749 ($3,009,872,153 of certified value plus $1,672,596 of uncertified value) or the Estimated Taxable Assessed Valuation as of October 1, 2019 of $3,128,037,070. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in the taxable value 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 "FINANCIAL INFORMATION CONCERNING THE DISTRICT—Debt Service Requirements."

Average Annual Debt Service Requirement (2020-2044)	$ 8,324,666
$0.30 Tax Rate on the 2019 Taxable Assessed Valuation	$ 8,582,903
$0.29 Tax Rate on Estimated Taxable Assessed Valuation as of October 1, 2019	$ 8,617,742
Maximum Annual Debt Service Requirement (2034)	$ 11,991,644
$0.42 Tax Rate on the 2019 Taxable Assessed Valuation	$ 12,016,064
$0.41 Tax Rate on Estimated Taxable Assessed Valuation as of October 1, 2019	$ 12,183,704

No representation or suggestion is made that the uncertified portion of the uncertified portion of the 2019 Taxable Assessed Valuation will not be adjusted downward prior to certification or that the Estimated Taxable Valuation as of October 1, 2019, will be certified by the Appraisal Districts, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

TAXING PROCEDURES

Property Tax Code and County-Wide Appraisal Districts

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt certain residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2019 tax year, the District granted an exemption of $20,000 of assessed valuation for persons 65 years of age or older and individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between $5,000 and $12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, (ii) a first responder as defined under Texas law, 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 surviving spouse.

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

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than $5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2019 tax year, the District has not granted a general residential homestead exemption.

Valuation of Property for Taxation

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

When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property.

District and Taxpayer Remedies

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

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

Agricultural, Open Space, Timberland, and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal Districts is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based upon the new use for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2019, 190.3359 acres of land within the District were designated for agricultural use or timberland.

Tax Abatement

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal Districts. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or thirty (30) days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or a portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%)

additional penalty. The District may waive penalties and interest on delinquent taxes only FOR ITEMS SPECIFIED IN THE Texas Property Tax Code. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) effective September 1, 2019, qualifies as a disabled veteran under Texas law, is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

Rollback of Operation and Maintenance Tax Rate

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date (as to those provisions discussed herein) 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 municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a district has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per $100 of taxable value are classified herein as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all land, improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

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

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

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

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

District's Rights in the Event of Tax Delinquencies

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

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

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Montgomery County, the City of Houston, The Woodlands Township 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 and Security 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" below.

Litigation

In May 2018, a lawsuit was filed in Harris County, Texas, and subsequently amended, on behalf of 521 homeowners in the District against The Woodlands Land Development Company LP, The Howard Hughes Corporation, LJA Engineering Inc., and James R. Bowles alleging that the design of the Timarron and Timarron Lakes subdivisions within the District ignored the flood plain history and allowed homes to be built at inadequate elevations. The lawsuit is styled Jason Alexander et al v. The Woodlands Land Development Company, et al. The District is not a party to the lawsuit. See "INVESTMENT CONSIDERATIONS—Flooding within the District's Boundaries, Including Events Related to Hurricane Harvey."

Flooding within the District's Boundaries, Including Events Related to Hurricane Harvey

2016 Weather Event: According to the Engineer, the District was impacted by flood waters resulting from significant rainfall events in the Spring Creek watershed on May 26 and 27, 2016. According to flood gauge data published by the Harris County Flood Control District, the flood water elevations in Spring Creek at Kuykendahl Road within the District were approximately three (3) feet six (6) inches higher than the 100-Year Flood Elevation defined by the Federal Emergency Management Agency Flood Insurance Rate Maps. The flood water caused street flooding within the District and the temporary closure of Kuykendahl Road and Gosling Road, the major north-south thoroughfares through the District, as well as Creekside Forest Drive and Creekside Green Drive, the local east-west collector roadways serving the District. These roadways were reopened on May 29, 2016.

The flood waters also caused the failure of Water Plant No. 2 and Sanitary Sewer Lift Station No. 2, both operated by HCMUD 387 and used to provide service to the District. See "THE SYSTEM—Harris County." These facilities were repaired and in full operation on or before June 8, 2016. Water and wastewater service in the District was maintained during and after the flood event.

According to the Developer, the flood waters caused structural flooding of approximately 6 of 4,557 completed homes at that time during this 2016 weather event within the District.

2017 Hurricane Harvey: The Houston area, including Montgomery County, sustained widespread rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District is located approximately 70 miles from the Texas Gulf Coast. Accordingly, like other coastal areas, land located in the District is susceptible to hurricanes, tropical storms, and other tropical disturbances.

According to the Engineer and Operator, flood waters during the Hurricane Harvey event caused the failure of Water Plant No. 2 and Sanitary Sewer Lift Station No. 4 operated by HCMUD 387. See "THE SYSTEM—Harris County." Repairs to Water Plant No. 2 and Lift Station No. 4 by HCMUD 387 were completed in the fourth quarter of 2017. Equipment at Lift Stations Nos. 1 and 5 and the Wastewater Treatment Plant was also damaged by the flood waters with repairs completed soon after event. Water and wastewater service in the District was maintained during and after the flood event.

According to the Developer and the Operator, the flood waters caused structural flooding of approximately 300 of 4,557 completed homes during Hurricane Harvey event within the District.

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.

Atlas 14

The National Weather Service recently completed a rainfall study knows as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the District may be redrawn based upon the Atlas 14 study, which is based upon a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees and stricter building codes for any property located within the expanded boundaries of the floodplain. See "THE SYSTEM."

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, commercial development, undeveloped land and developed lots which are currently being marketed by the Developer to the builders for the construction of primary residences. 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, energy availability 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—Homebuilding" and "Credit Markets and Liquidity in the Financial Markets" below.

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, 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 27 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 the national financial and credit markets. A downturn in the economic conditions of the City of Houston and the nation could adversely affect development and home-building plans in the District and restrain the growth or reduce the value of the District's property tax base.

Competition

The demand for and construction of single-family homes in the District, which is 27 miles from downtown Houston, could be affected by competition from other residential developments, including other residential developments located in the northern portion of the Houston area market. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

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

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 "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—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.

Tax Legislative Changes

Current law may change so as to 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, could 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.

Registered Owners' Remedies

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

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. 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.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District's voters have authorized the issuance of a total of $282,000,000 in principal amount of unlimited tax bonds for constructing or acquiring water, sanitary sewer and drainage facilities. After issuance of the Bonds, $102,950,000 in principal amount of such unlimited tax bonds for water, sanitary sewer and drainage facilities will remain authorized but unissued. The District's voters have also authorized a total of $293,500,000 in principal amount of unlimited tax bonds for the purposes of refunding outstanding bonds of the District, of which $291,275,000 in principal amount for such purposes remains authorized but unissued. In addition, The District's voters have authorized a total of $11,500,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities, all of which remains authorized but unissued. See "THE BONDS—Issuance of Additional Debt." The District's voters could authorize additional amounts. The issuance of additional bonds for water, sanitary sewer, drainage and recreational facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. 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 the issuance of the Bonds and reimbursement are made with Bond proceeds, according to the Developer the District will continue to owe the Developer approximately $7,500,000 plus interest for recreational facilities. The principal amount of bonds issued to finance 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. 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. See "THE BONDS—Issuance of Additional Debt," "—Financing Recreational Facilities," "—Financing Fire-Fighting Activities," and "—Financing Road Facilities."

Marketability of the Bonds

The District has no understanding with the Underwriters 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.

Environmental and Air Quality Regulations

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

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

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

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

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

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

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal will officially become final sixty days after its publication in the Federal Register.

On December 11, 2018, the EPA and USACE released a proposed replacement definition of "waters of the United States." The proposed definition outlines six categories of waters that would be considered "waters of the United States," including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not "waters of the United States," such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies took comments on the proposal for 60 days after publication in the Federal Register, which occurred on February 14, 2019, but the proposed rule has not been finalized.

Due to the pending rulemaking activity, 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.

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

The obligations of the insurer are contractual obligations and in an event of default by the insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies. Neither the District nor the 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. See "MUNICIPAL BOND RATING" AND "MUNICIPAL BOND INSURANCE" for further information provided by the insurer and the Policy, which includes further instructions for obtaining current financial information concerning the insurer.

Future and Proposed Legislation

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

Continuing Compliance with Certain Covenants

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

LEGAL MATTERS

Legal Opinions

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

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

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

Legal Review

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

Tax Exemption

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

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

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

Not Qualified Tax-Exempt Obligations

The District has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code.

Collateral Federal Income Tax Consequences

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

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

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

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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

Under Existing Law, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See "Tax Exemption" herein for a discussion of certain collateral federal tax consequences.

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

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

The initial public offering price to be paid for certain maturities of the Bonds may be greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

NO MATERIAL ADVERSE CHANGE

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

NO-LITIGATION CERTIFICATE

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

MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE

Moody's Investors Service ("Moody's") has assigned a credit rating of "Aa3" to the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The rating fees of Moody's will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Underwriter.

Application has also been for municipal bond insurance. If qualified, the purchase of municipal bond insurance is optional and at the expense of the Underwriter. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance."

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 Moody's, 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.

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 Appraisal Districts 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 sources other than the District, and its inclusion herein is not to be construed as a representation on the part of the District to such effect. Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

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

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants:

Appraisal Districts: The information contained in this OFFICIAL STATEMENT relating to the Assessed Valuations of the District have been provided by Harris County Appraisal District and Montgomery Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Harris County and Montgomery County, as applicable.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" and "TAXING PROCEDURES" has been provided by Ad Valorem Appraisals, Inc. and is included herein in reliance upon the authority of said firm as experts in collecting taxes.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the District's water, wastewater, and storm drainage system, and, in particular that information in the sections entitled "THE DISTRICT" and "THE SYSTEM" (as it relates to District facilities) has been provided by the IDS Engineering Group, included herein in reliance upon the authority of said firm as experts in the field of engineering.

Auditor: The District's financial statements for the year ended March 31, 2019, were audited by Knox Cox & Company, L.L.P., Certified Public Accountants. See "APPENDIX A" for a copy of the District's March 31, 2019, financial statements.

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

Updating the Official Statement

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 Underwriters, of any adverse event which causes the OFFICIAL STATEMENT to be materially misleading, and unless the Underwriters elect to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriters an appropriate amendment or supplement to the OFFICIAL STATEMENT satisfactory to the Underwriters, provided, however, that the obligation of the District to the Underwriters to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriters, unless the Underwriters notify 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 (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to an ultimate customer.

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT—Debt Service Requirements," "THE SYSTEM," "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," (except "Estimated Overlapping Debt" and "Overlapping Taxes"), "TAX DATA," (most of which information is contained in the District's annual audited financial statements) and in "APPENDIX A." The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 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 Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is March 31. Accordingly, it must provide updated information by September 30 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.

Specified Event Notices

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of 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 to a decision to purchase or sell Bonds; (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 "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

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

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects 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 registered 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 the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as 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 such Rule or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Underwriters from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

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

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.

/s/________________________

Harris-Montgomery Counties Municipal
Utility District No. 386
President, Board of Directors

ATTEST:

/s/________________________

Harris-Montgomery Counties Municipal
Utility District No. 386
Secretary, Board of Directors

PHOTOGRAPHS OF THE DISTRICT
(As of October 2019)


THE WOODLANDS



Shea
SOLD


SOLD


H-E-B


FIRST CHOICE
EMERGENCY ROOM
26306


LOVEBEANS
coffeehouse
LOVEBEANS
coffeehouse
COMING SOON


Walgreens

APPENDIX A

Auditor's Report and Financial Statements of the District for the year ended March 31, 2019

The information contained in this appendix includes the audited financial statements of Harris-Montgomery Counties Municipal Utility District No. 386 and certain supplemental information for the fiscal year ended March 31, 2019.

Harris-Montgomery Counties
Municipal Utility District No. 386

HARRIS & MONTGOMERY COUNTIES, TEXAS

FINANCIAL REPORT

March 31, 2019

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C O N T E N T S

--ooOoo--

Knox Cox & Company, L.L.P.

Certified Public Accountants

77 Sugar Creek Center Blvd., Suite 215 | Sugar Land, Texas 77478
main: 346-772-2860 | fax: 346-772-2853

Independent Auditors' Report

Board of Directors
Harris-Montgomery Counties Municipal Utility District No. 386
Harris-Montgomery Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the Harris-Montgomery Counties Municipal Utility District No. 386, as of and for the year ended March 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Harris-Montgomery Counties Municipal Utility District No. 386, as of March 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 budgetary comparison information on pages 3 through 8 and 30 through 31 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 an opinion on the financial statements that collectively comprise the Harris-Montgomery Counties Municipal Utility District No. 386's basic financial statements. The Texas supplementary information is not a required part of the basic financial statements.

The Texas supplementary information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Kemp Cox & Co. LLP

Sugar Land, Texas
July 17, 2019

Management's Discussion and Analysis

As management of Harris-Montgomery Counties Municipal Utility District No. 386 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended March 31, 2019.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $21,443,825 (net position).
- As of March 31, 2019, the District's governmental funds reported an ending fund balance of $28,469,465.
- The District's cash and temporary investments at March 31, 2019 was $28,654,440, representing an decrease of $2,484,354 from March 31, 2018.
- The District had revenues of $20,179,500 and a change in net position of $3,635,903 for the year ended March 31, 2019.
- At the end of the fiscal year, unassigned fund balance for the General Fund was $10,004,050.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two 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 is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

The government-wide financial statements present functions of the District that are provided from funding sources (governmental activities). The government-wide financial statements can be found on pages 10-13 of this report.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District consist solely of the General Fund, the Capital Projects Fund and the Debt Service Fund.

Governmental Funds - Governmental funds are used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide an adjustments column to facilitate this comparison between the governmental funds and g*overnmental activities*. The basic governmental fund financial statements can be found on pages 10-13 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 30 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's General Fund budget. Required supplementary information can be found on page 32 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $21,443,825 as of March 31, 2019, of which $10,092,419 is unrestricted and available for future operations.

SUMMARY OF STATEMENT OF NET POSITION

	Governmental Activities	
	2019	**2018**
Current and other assets	$ 30,484,970	$ 32,757,223
Capital assets, net	137,730,603	126,528,170
Total Assets	168,215,573	159,285,393
Deferred Outflows of Resources	4,106,938	4,340,620
Long-term liabilities	140,215,000	135,020,000
Other liabilities	10,663,686	10,798,091
Total Liabilities	150,878,686	145,818,091
Net Position:		
Net investment in capital assets	(7,208,072)	(9,063,478)
Restricted		
Restricted for:		
Debt service	18,559,478	17,631,623
Unrestricted	10,092,419	9,239,777
Total Net Position	$ 21,443,825	$ 17,807,922

Net position of the District, all of which relate to governmental activities, increased by $3,635,903. Key elements of the increase are as follows:

CHANGES IN NET POSITION

	Governmental Activities	
	2019	**2018**
Revenues		
Water and sewer charges	$ 5,835,224	$ 5,571,745
Property taxes, penalties and interest	13,013,613	12,926,703
Tap connection and inspection fees	650,943	604,868
Investment income and other	679,720	374,905
Total Revenues	20,179,500	19,478,221
Expenses		
Purchased services	6,139,915	6,167,102
Professional fees	504,965	450,761
Contracted services	414,796	415,965
Repairs and maintenance	589,086	764,869
Tap connections and inspections	254,782	244,647
Administration and other	485,781	841,310
Interest and fiscal charges on long-term debt	5,548,778	5,569,845
Depreciation and amortization	2,605,494	2,350,798
Total Expenses	16,543,597	16,805,297
Change in Net Position	3,635,903	2,672,924
Net position, beginning	17,807,922	15,134,998
Net Position, Ending	$ 21,443,825	$ 17,807,922

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's governmental funds are discussed below:

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, fund balances may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of March 31, 2019, the District's governmental funds reported an ending fund balance of $28,469,465.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The District's investment in capital assets as of March 31, 2019 amounts to $137,730,603 (net of accumulated depreciation). This investment in capital assets includes capacity rights and water and wastewater infrastructure.

CAPITAL ASSETS SCHEDULE
(Net of Depreciation)

	Governmental Activities	
	2019	**2018**
Capacity rights	$ 37,903,900	$ 34,752,220
Construction in progress	36,618	
Infrastructure	99,790,085	91,592,819
Total Capital Assets, Net	$ 137,730,603	$ 126,345,039

The District has contractual commitments on various open and closed projects for the construction of facilities within the District.

LONG-TERM DEBT

As of March 31, 2019, the District has a total bonded debt outstanding of $145,820,000. Interest expense for the 2019 fiscal year totaled $5,172,602 on this bonded debt. These outstanding bonds have maturities ranging from fiscal year 2019 to fiscal year 2041. Additional information on the District's long-term debt can be found in Note 10 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

- Unassigned fund balance in the General Fund increased to $10,004,050 from a balance of $9,004,052. A change in fund balance was not projected.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Harris-Montgomery Counties Municipal Utility District No. 386, c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056.

FINANCIAL STATEMENTS

Harris-Montgomery Counties
Municipal Utility District No. 386

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2019

	General	Debt Service	Capital Projects
Assets			
Cash	$ 510,825	$ 246,784	$ 1,984
Temporary investments	9,654,330	17,927,197	313,320
Receivables:			
Property taxes	88,369	409,292	
Customer service accounts	191,528		
Accrued interest	45,921	27,246	
Intergovernmental advance	1,039,276		
Other	19,813		
Prepayments	9,085		
Interfund receivables	39,190		
Capital assets, net of accumulated depreciation:			
Capacity rights			
Construction in progress			
Infrastructure			
Total Assets	11,598,337	18,610,519	315,304
Deferred Outflows of Resources-Charges from refunding			
Total Assets and Deferred Outflows of Resources	$ 11,598,337	$ 18,610,519	$ 315,304
Liabilities and Fund Balances/Net Position			
Liabilities			
Accounts payable and accrued liabilities	$ 185,064	$ 11,851	$ 75
Accrued interest payable			
Customer deposits	899,638		
Other	18,651		
Internal payables		39,190	
Due to other governments	402,565		
Unamortized bond premium			
Current portion of long-term debt			
Noncurrent liabilities due in more than one year			
Total Liabilities	1,505,918	51,041	75
Deferred Inflows of Resources-Advance of Tax revenue	88,369	409,292	
Fund Balances/Net Position			
Fund Balances:			
Restricted for:			
Capital projects			315,229
Debt service		18,150,186	
Unrestricted and Unassigned:			
Unassigned	10,004,050		
Total Fund Balances	10,004,050	18,150,186	315,229
Total Liabilities, Deferred Inflows and Fund Balances	$ 11,598,337	$ 18,610,519	$ 315,304
Net Position:			
Net investment in capital assets			
Restricted for Debt Service			
Unrestricted			
Total Net Position			

See Notes to Financial Statements.

Exhibit B(1)

Total	Adjustments (Note 2)	Statement of Net Position
$ 759,593	$	$ 759,593
27,894,847		27,894,847
497,661		497,661
191,528		191,528
73,167		73,167
1,039,276		1,039,276
19,813		19,813
9,085		9,085
39,190	(39,190)	
	37,903,900	37,903,900
	36,618	36,618
	99,790,085	99,790,085
30,524,160	137,691,413	168,215,573
	4,106,938	4,106,938
$ 30,524,160	$ 141,798,351	$ 172,322,511
$ 196,990	$	$ 196,990
	409,105	409,105
899,638		899,638
18,651		18,651
39,190	(39,190)	
402,565		402,565
	3,131,737	3,131,737
	5,605,000	5,605,000
	140,215,000	140,215,000
1,557,034	149,321,652	150,878,686
497,661	(497,661)	
315,229	(315,229)	
18,150,186	(18,150,186)	
10,004,050	(10,004,050)	
28,469,465	(28,469,465)	
$ 30,524,160		
	(7,208,072)	(7,208,072)
	18,559,478	18,559,478
	10,092,419	10,092,419
	$ 21,443,825	$ 21,443,825

Harris-Montgomery Counties
Municipal Utility District No. 386

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

For the Year Ended March 31, 2019

	General	Debt Service	Capital Projects
Revenues			
Water service	$ 1,745,155	$	$
Sewer service	1,008,345		
Surface water conversion	3,081,724		
Property taxes	2,348,217	10,549,462	
Penalties and interest	57,038	57,545	
Tap connection and inspection fees	536,360		
Investment earnings	150,029	307,998	11,354
Other revenue	334,282	59,188	
Total Revenues	9,261,150	10,974,193	11,354
Expenditures/Expenses			
Current:			
Purchased services	6,139,915		
Professional fees	504,965		
Contracted services	230,963	183,833	
Repairs and maintenance	589,086		
Tap connections and inspections	254,782		
Administration and other	481,280	3,745	756
Debt service:			
Interest		4,923,919	
Principal		5,015,000	
Bond issuance costs			376,176
Capital outlay	69,661		14,141,496
Depreciation and amortization			
Total Expenditures/Expenses	8,270,652	10,126,497	14,518,428
Excess (Deficiency) of Revenues Over (Under) Expenditures	990,498	847,696	(14,507,074)
Other Financing Sources (Uses)			
Proceeds from debt issuance			10,800,000
Bond Discount			(288,627)
Internal transfers	9,500		(9,500)
Total Other Financing Sources (Uses)	9,500		10,501,873
Change in Fund Balances/Net Position	999,998	847,696	(4,005,201)
Fund Balances/Net Position - Beginning (See Note 1)	9,004,052	17,302,490	4,320,430
Fund Balances/Net Position - Ending	$ 10,004,050	$ 18,150,186	$ 315,229

See Notes to Financial Statements.

Exhibit B(2)

Total	Adjustments (Note 2)	Statement of Activities
$ 1,745,155	$	$ 1,745,155
1,008,345		1,008,345
3,081,724		3,081,724
12,897,679	115,934	13,013,613
114,583		114,583
536,360		536,360
469,381		469,381
393,470	(183,131)	210,339
20,246,697	(67,197)	20,179,500
6,139,915		6,139,915
504,965		504,965
414,796		414,796
589,086		589,086
254,782		254,782
485,781		485,781
4,923,919	248,683	5,172,602
5,015,000	(5,015,000)	
376,176		376,176
14,211,157	(14,211,157)	
	2,605,494	2,605,494
32,915,577	(16,371,980)	16,543,597
(12,668,880)	12,668,880	
10,800,000	(10,800,000)	
(288,627)	288,627	
10,511,373	(10,511,373)	
(2,157,507)	5,793,410	3,635,903
30,626,972	(12,819,050)	17,807,922
$ 28,469,465	$ (7,025,640)	$ 21,443,825

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Harris-Montgomery Counties
Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform with generally accepted accounting principles. The following is a summary of the most significant policies:

A. Reporting Entity

Harris-Montgomery Counties Municipal Utility District No. 386 (the "District") was created by Senate Bill No. 1775 passed by the 77^{th} Texas Legislature, Regular Session, 2001, Chapter 1381, codified as Chapter 8272, Special District Local Laws Code, as amended. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, 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, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and, subject to the provisions of Texas Water Code, Section 49.351 et seq., including the approval of a fire plan by the Texas Commission on Environmental Quality and the voters within the District, to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on June 26, 2003.

The District is a political subdivision of the State of Texas governed by an elected five member board and is considered a primary government. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. Based on these considerations, no other entities, organizations, or functions have been included in the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered if determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Although not considered significant in the District's reporting entity evaluation, other prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District's primary activities include construction, maintenance, and operation of water and sewer system facilities and debt service on bonds issued to construct the facilities, if applicable.

B. Financial Statement Presentation

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* This statement, known as the "Reporting Model" statement, affects the way the District prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial information.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

Some of the significant changes of GASB Statement No. 34 include the following:

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis that private sector companies provide in their annual reports.

Government-wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure and general obligation debt). Accrual accounting reports all of the revenues and costs of providing services each year, not just those received or paid in the current or soon thereafter, as is the case with the modified accrual basis of accounting. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report related depreciation expense, the cost of "using up" capital assets, in the Statement of Activities. The net assets of a government are broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Fund Financial Statements - These statements focus on the District's major funds and are prepared using the modified basis of accounting.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the non-fiduciary activities of the primary government and its component units, as applicable. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The District had no business-type activities or component units as of and for the year ended March 31, 2019.

The governmental funds financial statements consist of the balance sheet and statement of revenues, expenditures and changes in fund balance. These financial statements have been adjusted to arrive at the government-wide financial statement balances (statement of net assets and statement of activities). Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

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

Governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Revenues accrued include interest earned on investments and income from District operations. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service requirements, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The accounting system is organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which comprise its assets, liabilities, fund equity or deficit, revenues and expenditures.

The District reports the following governmental funds:

General Fund

The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to water and sewer service operations and property taxes. Expenditures include all costs associated with the daily operations of the District.

Debt Service Fund
The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes pursuant to requirements of the District's bond resolutions.

Capital Projects Fund
The Capital Projects Fund is used to account for the expenditure of bond proceeds for the construction of the District's water and sewer facilities.

E. Budget

An unappropriated budget is adopted for the General Fund. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized.

F. Investments

The District classifies investments that have a remaining maturity of one year or less at the date of purchase as "money market investments" in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Reporting for Certain Investments and External Investment Pools" (Statement No. 31). Statement No. 31 defines "money market investments" as short-term, highly liquid debt instruments including commercial paper, banker's acceptances and U.S. Treasury and agency obligations. The District values its "money market investments" at cost, which is considered to approximate market value. The District's certificates of deposit, if any, are recorded at cost in accordance with Statement No. 31.

In December 2015, GASB issued Statement No. 79 titled "Certain External Investment Pools and Pool Participants" in response to the Securities and Exchange Commission's amendments in 2014 to regulations that apply to money market funds. Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. If the external investment pool meets the criteria in Statement No. 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes.

G. Capital Assets

Capital assets, which include infrastructure assets are reported in the government-wide financial statements. Capital assets, other than infrastructure items, are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Harris-Montgomery Counties
Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Asset Description	Estimated Useful Life
Capacity rights	N/A
Water system	40 years
Wastewater system	40 years
Engineering	40 years

H. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums or discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

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

I. Fund Equity

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable:
To indicate fund balance associated with inventories, prepaids, long-term loans and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted:
To indicate fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. When restricted and unrestricted fund balance exists for the same purpose, restricted fund balance will be used first.

Committed:
To indicate fund balance that can be used only for the specific purposes determined by a formal action of the Board of Directors (the District's highest level of decision-making

authority). Commitments may be changed or lifted only by the Board of Directors taking the same formal action that imposed the constraint originally.

Assigned:
To indicate fund balance to be used for specific purposes but do meet the criteria to be classified as restricted or committed.

Unassigned:
To indicate the residual classification of fund balance in the General Fund and includes all spendable amounts not contained in the other classifications.

GASB 54 requires disclosure of any formally adopted minimum fund balance policies. The District does not currently have any such policies.

J. Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through July 17, 2019, the date that the financial statements were available to be issued.

K. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes an adjustments column to arrive at the government-wide statement of net position balances. Amounts reported in the statement of net position are different because:

Total fund balances - governmental funds	$	28,469,465
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		137,730,603
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		4,106,938
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements		497,661
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.		(149,360,842)
Net Position of Governmental Activities	$	21,443,825

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes an adjustments column to arrive at changes in net assets as reported in the government-wide statement of activities. Amounts reported in the statement of activities are different because:

Net change in fund balances - total governmental funds	$	(2,157,507)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay expense in the current fiscal year.		11,390,208
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		(5,280,918)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(248,683)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(67,197)
Change in Net Position of Governmental Activities	$	3,635,903

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Net Position

"Net investment in capital assets" has a deficit balance of $7,208,072 as of March 31, 2019. As the majority of the capital assets were financed with general obligation debt, timing differences generally arise related to the straight-line depreciation of the capital assets as compared to the level principal and interest payment structure of the debt, which yields lower principal retirement in the early years of the debt. As bond principal retirement increases over time, the deficit will be eliminated.

NOTE 4 - CASH AND TEMPORARY INVESTMENTS

Cash consists of interest bearing checking accounts and temporary investments consist of Texas Class and certificates of deposit.

The carrying amounts for cash and temporary investment balances, which approximate fair values, by fund at March 31, 2019, are as follows:

	Checking	CD's	Texas Class	Total
General	$ 510,825	$ 3,240,000	$ 6,414,330	$ 10,165,155
Debt Service	246,784	2,880,000	15,047,197	18,173,981
Capital Projects	1,984		313,320	315,304
	$ 759,593	$ 6,120,000	$ 21,774,847	$ 28,654,440

Custodial Credit Risk - Deposits

For deposits, this is the risk that in the event of bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the District's deposits is required to be held in the District's name by the trust department of a bank other than the pledging bank (the District's agent). Collateral securities must bear a Baa-1 or better rating to qualify for use in securing uninsured depository balances. Deposits at year-end are representative of the types of deposits maintained by the District during the year.

The District's deposits in banks at year-end were entirely covered by federal depository insurance or by acceptable collateral held by the District's agent in the District's name.

Investments

At year-end, the Districts investment balances were as follows:

	Fair Value	Fair Value Level	Weighted Average Maturity (Days)
Certificates of deposit	$ 6,120,000	1	157
Texas Classs	21,774,847	2	78
Total Investments	$ 27,894,847		

Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs.

Investment Policies

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investments of the District are in compliance with its investment policy.

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the District's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds. Balances in checking accounts in depository institutions were entirely guaranteed by federal depository insurance or security as provided by statutes and bond provisions at March 31, 2019.

Investment Pools

The District participates in Texas Cooperative Liquid Assets Securities System ("Texas Class"), an external investment pool that is not registered with the Security and Exchange Commission. Texas Class is supervised by the Board of Trustees, each of whom is elected by the Participants. The Board of Trustees supervises the Trust and acts as a liaison between Participants, the Custodian and the Program Administrator. Wells Fargo Bank, NA serves as Custodian of the Trust. Public Trust Advisors, LLC serves as Program Administrator. Texas Class use amortized cost (which excludes unrealized gains and losses) to compute share price. An external investment pool qualifies for amortized cost reporting if it transacts with its participants at a stable net asset value per share and meets various portfolio maturity, quality, diversification liquidity and pricing requirements. There are no limitations or restriction on withdrawal from the investment pool. The District's investment in Texas CLASS is measured using published fair value per share (level 1 inputs).

Interest Rate Risk

In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than two years to meet cash requirements for ongoing operation.

Credit Risk - Investments

In accordance with its investment policy, the District minimized credit risk losses due to default of a security issuer or backer, by limiting investments to the safest types of securities. As of March 31, 2019, Texas Class is rated AAAm by Standard and Poor's.

NOTE 5 - PROPERTY TAXES

The voters of the District have authorized the District's Board of Directors to levy maintenance taxes annually for use in financing general operations limited in the maximum amount of $1.25 per $100 of assessed value. The District's bond authorized resolution requires that ad valorem taxes be levied for use in paying interest and principal on long-term debt following the issuance of bonds and for use in paying the cost of assessing and collecting taxes. Taxes levied for debt service requirements are without limitation as to rate or amount.

All property values for the land located within Harris County are determined by the Harris County Appraisal District. All property values for the land located within Montgomery County are determined by the Montgomery Central Appraisal District. A tax lien attaches to all properties within the District on January 1st of each year. Taxes are generally levied on October 1 and are due upon receipt of the tax bill by the property owner. Penalties and interest are charged if taxes are not paid by the succeeding January 31st. There is an additional twenty percent penalty charged on accounts delinquent after July 1st of each year which generally is payable to the District's delinquent tax attorney.

Property taxes are levied for operations and maintenance and debt service. For the 2018 tax year, the District levied a tax rate of $0.465 per $100 of assessed valuation of which $0.38 was allocated to debt service and $0.085 to operations and maintenance. The resulting tax levy was $13,132,058 on the adjusted taxable valuation of $2,824,098,513 for the 2018 tax year.

Property taxes receivable at March 31, 2019, consisted of the following:

	General Fund	Debt Service Fund	Total
2018 Levy	$ 81,692	$ 365,199	$ 446,891
2017 Levy	4,310	26,522	30,832
2016 Levy	1,292	9,628	10,920
2015 & Prior	1,075	7,943	9,018
	$ 88,369	$ 409,292	$ 497,661

Harris-Montgomery Counties
Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - RECEIVABLES

Receivables as of year-end for the government's individual major funds are as follows:

	General	Debt Service	Total
Receivables:			
Property taxes	$ 88,369	$ 409,292	$ 497,661
Customer service accounts	191,528		191,528
Accrued interest	45,921	27,246	73,167
Intergovernmental advance	1,039,276		1,039,276
Other	19,813		19,813
Total Receivables	$ 1,384,907	$ 436,538	$ 1,821,445

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable - General Fund	$ 88,369	$
Delinquent property taxes receivable - Debt Service Fund	409,292	
Total Deferred Revenue for Governmental Funds	$ 497,661	$

NOTE 7 – DEFERRED CHARGES FROM REFUNDING

A summary of changes in the deferred charges from refunding follows:

	Original Deferred Charge	Balance at Apr. 1, 2018	Current Year Interest	Balance at Mar. 31, 2019
Refunding Bonds				
Series 2015	$ 1,243,684	$ 1,191,864	$ 51,820	$ 1,140,044
Series 2016	2,462,681	2,229,289	130,780	2,098,509
Series 2017	970,549	919,467	51,082	868,385
Total	$ 4,676,914	$ 4,340,620	$ 233,682	$ 4,106,938

NOTE 8 – UNAMORTIZED BOND PREMIUM (DISCOUNT)

A summary of changes in the unamortized bond premium follows:

	Original Bond Premium (Discount)	Balance at Apr. 1, 2018	Current Year Amortization	Balance at Mar. 31, 2019
Unlimited Tax Bonds				
Series 2014	$ 375,928	$ 297,608	$ 15,664	$ 281,944
Series 2014A	(248,984)	(210,680)	(9,576)	(201,104)
Series 2015R	392,552	330,569	20,661	309,908
Series 2016R	2,994,625	2,703,481	166,368	2,537,113
Series 2017R	547,019	514,841	32,178	482,663
Series 2018	(288,627)		(9,840)	(278,787)
Total	$ 3,772,513	$ 3,635,819	$ 215,455	$ 3,131,737

NOTE 9 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended March 31, 2019, follows:

	Balance Apr. 1, 2018	Increases	(Decreases)	Balance Mar. 31, 2019
Governmental Activities:				
Non-depreciable Assets:				
Capacity rights	$ 34,752,220	$ 3,151,680	$	$ 37,903,900
Construction in progress		36,618		36,618
Total Non-depreciable Assets	34,752,220	3,188,298		37,940,518
Depreciable Assets:				
Infrastructure	107,601,182	11,018,214		118,619,396
Total Depreciable Assets	107,601,182	11,018,214		118,619,396
Less Accumulated Depreciation	(16,008,363)	(2,820,949)		(18,829,312)
Totals	$ 126,345,039	$ 11,385,563	$	$ 137,730,602

Depreciation expense for the year ended March 31, 2019 totaled $2,820,949.

Harris-Montgomery Counties Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT

Long-term debt consists of bonds payable. Payments of principal and interest on the bonds are to be provided from tax levies on properties within the District. Investment income realized by the Debt Service Fund from investment of funds will be used to pay outstanding bond principal and interest.

The following is a summary of changes in bonds payable for the year ended March 31, 2019:

Bonds payable, April 1, 2018	$ 140,035,000
Bond additions	10,800,000
Bond retirements	(5,015,000)
Bonds Payable, March 31, 2018	$ 145,820,000

Bonds payable at March 31, 2019, are comprised of the following individual issues:

Series	Amount Outstanding	Interest Rate	Date Serially Begin/End	Maturity Interest Dates
2010	$ 1,940,000	4.000-5.250%	September 1 2018/2034	March 1/ Sept. 1
2011	$ 2,535,000	3.250-3.875%	September 1 2018/2035	March 1/ Sept. 1
2012	$20,710,000	2.375-4.000%	September 1 2018/2036	March 1/ Sept. 1
2014	$22,850,000	3.000-4.125%	September 1 2018/2037	March 1/ Sept. 1
2014A	$26,375,000	2.500-4.000%	September 1 2018/2039	March 1/ Sept. 1
2015	$15,560,000	2.000-4.000%	September 1 2018/2034	March 1/ Sept. 1
2015A	$ 8,415,000	2.000-3.625%	September 1 2018/2040	March 1/ Sept. 1
2016	$25,490,000	2.000-4.000%	September 1 2018/2034	March 1/ Sept. 1
2017	$15,520,000	2.000-4.000%	September 1 2018/2035	March 1/ Sept. 1
2018	$10,800,000	2.000-3.625%	September 1 2019/2041	March 1/ Sept. 1

As of March 31, 2019, the debt service requirements on bonds outstanding for the next five fiscal years and thereafter through 2041 are as follow:

Fiscal Year	Principal	Interest	Total
2020	$ 5,605,000	$ 4,909,263	$ 10,514,263
2021	5,825,000	4,736,563	10,561,563
2022	6,040,000	4,563,024	10,603,024
2023	6,270,000	4,375,199	10,645,199
2024	6,540,000	4,172,869	10,712,869
2025-2029	37,005,000	17,356,863	54,361,863
2030-2034	45,055,000	10,396,439	55,451,439
2035-2039	29,480,000	2,882,824	32,362,824
2040-2041	4,000,000	139,513	4,139,513
	$ 145,820,000	$ 53,532,557	$ 199,352,557

At March 31, 2019, the District has tax bonds authorized by the voters in the amount of $293,500,000, and issued tax bonds in the amount of $167,870,000.

As of March 31, 2019, the Debt Service Fund has $18,150,186 available to service the above bonds. The District is in compliance with all significant bond requirements and restrictions contained in the bond resolutions.

In November 2017, the District issued $15,520,000 in Series 2017 unlimited tax refunding bonds. Proceeds were used to advance refund and defease $14,685,000 of 2011 Series bonds. Net proceeds were placed in an irrevocable escrow fund with an escrow bank to provide future debt service payments. Aa a result, the refunded bonds are considered defeased and the liability for these bonds have been removed from the financial statements. The refunding resulted in a gross debt service savings of $1,824,426 and a net present value savings of $1,392,948.

NOTE 11 - AGREEMENT WITH OTHER DISTRICT

The District has entered into an agreement with Harris County Municipal Utility District No. 387 (MUD "387") to provide its customers within Harris County with water and sanitary sewer services to the District. MUD 387 invoices the District for services provided. The District records an intergovernmental payable for amounts due to MUD 387, as applicable, for these services.

Under the terms of the agreement, the District pays its proportionate share of capital and operating costs for reserved capacity in the water supply and waste disposal facilities. Capital payments will come from the proceeds of bonds issued by the District or other legally available funds of the District and will be included as capital assets. Operating costs are recorded as current expenditures in the District's General Fund.

The relationship between MUD 387 and the District is purely contractual. MUD 387 is a separate functioning governmental entity whose management and Board of Directors are not subject to the control of the District. The District, together with other area municipal utility districts with similar contracts with MUD 387 (collectively the "Customer Districts"), contracts directly with MUD 387 for required facilities and does not have a contract with other Customer Districts. MUD 387 is not a participating facility user.

MUD 387 serves as the sponsor and common provider to each of its Customer Districts of facilities and related services and has full legal title and ownership to facilities, subject only to the contractual rights of the Customer Districts to receive services.

NOTE 12 - CONTRACT WITH SAN JACINTO RIVER AUTHORITY

The District has contracted with the San Jacinto River Authority ("SJRA") to provide its customers within Montgomery County with water and sanitary sewer services through the planning, construction, operation and maintenance of central water supply and waste disposal facilities. The contract, dated July 26, 2007, and the various supplemental agreements made pursuant thereto, will continue in full force and effect for a forty year period or until the outstanding bonds of the District related thereto are paid in full. Thereafter, the District shall retain a proportionate and equitable ownership interest in the capacity in the facilities.

Under the terms of the agreement, the District pays its proportionate share of capital and operating costs for reserved capacity in the water supply and waste disposal facilities. Capital payments will come from the proceeds of bonds issued by the District or other legally available funds of the District and will be included as capital assets. Operating costs are recorded as current expenditures in the District's General Fund.

As of March 31, 2018, the District has contracted to purchase capacity rights from the SJRA to service 923 single family residential equivalent connections in the Water Supply System and 1,036 single family residential equivalent connections in the Waste Disposal System. The District has paid $3,495,936 to the SJRA for the purchase of these capacity rights from its pro-rata share of the financing agreements noted above, bonds proceeds capital funds and other District capital funds sources. The sixth and final accounting prepared in 2017 indicated that the District's final contribution total is $3,312,805 for these rights. Based on the final accounting, $183,131 was due and paid to the District from SJRA in December 2018.

The relationship between the SJRA and the District is purely contractual. The SJRA is a separate functioning governmental entity whose management and Board of Directors are not subject to the control of the District. The District, together with other area municipal utility districts with similar contracts with the SJRA (collectively the "Customer Districts"), contracts directly with the SJRA for required facilities and does not have a contract with other Customer Districts. The SJRA is not a participating facility user.

The SJRA serves as the sponsor and common provider to each of its Customer Districts of facilities and related services and has full legal title and ownership to facilities, subject only to the contractual rights of the Customer Districts to receive services.

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts during the current fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Harris-Montgomery Counties
Municipal Utility District No. 386

Exhibit C(1)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended March 31, 2019

	Budgeted Amounts			Variance Over
	Original	Final	Actual	(Under)
Revenues				
Water service	$ 2,050,000	$ 2,050,000	$ 1,745,155	$ (304,845)
Sewer service	949,000	949,000	1,008,345	59,345
Surface water conversion	3,270,433	3,270,433	3,081,724	(188,709)
Property taxes	1,555,000	1,555,000	2,348,217	793,217
Penalties and interest	66,750	66,750	57,038	(9,712)
Tap connection & inspection fees	320,000	320,000	536,360	216,360
Interest on investments	56,500	56,500	150,029	93,529
Other revenue	43,500	43,500	334,282	290,782
Total Revenues	8,311,183	8,311,183	9,261,150	949,967
Expenditures				
Current:				
Purchased services	6,644,545	6,644,545	6,139,915	504,630
Professional fees	236,000	236,000	504,965	(268,965)
Contracted services	243,500	243,500	230,963	12,537
Repairs and maintenance	691,500	691,500	589,086	102,414
Tap connections & inspections	156,640	156,640	254,782	(98,142)
Administration and other	530,388	530,388	481,280	49,108
Capital outlay	115,000	115,000	69,661	45,339
Total Expenditures	8,617,573	8,617,573	8,270,652	346,921
Net Change in Fund Balance	(306,390)	(306,390)	990,498	1,296,888
Other Financing Sources (Uses)				
Internal transfers			9,500	(9,500)
Change in Fund Balance	(306,390)	(306,390)	999,998	(1,306,388)
Fund Balance - Beginning	9,004,052	9,004,052	9,004,052	
Fund Balance - Ending	$ 8,697,662	$ 8,697,662	$ 10,004,050	$ (1,306,388)

Harris-Montgomery Counties
Municipal Utility District No. 386

Exhibit C(2)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was not amended during the year by the Board of Directors.

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TEXAS SUPPLEMENTARY INFORMATION

Harris-Montgomery Counties
Municipal Utility District No. 386

SCHEDULE OF SERVICES AND RATES (UNAUDITED)

Year Ended March 31, 2019

1. Services provided by the District:

X	Retail Water		Wholesale Water	X	Drainage
X	Retail Sewer		Wholesale Sewer		Irrigation
X	Parks/Recreation		Fire Protection		Security
	Solid Waste/Garbage	X	Flood Control		Roads

X Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)

___ Other (specify): ____________________

2. Retail Service Providers

a. Retail rates based on 5/8" meter

The most prevalent type of meter (if not a 5/8"): 3/4"

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons Over Minimum	Usage Levels
Water**	$ 7.21	5,000	N	$ 1.03	5,001-10,000
				$ 1.55	10,001-15,000
				$ 1.80	15,001-20,000
				$ 3.09	20,001-25,000
				$ 3.35	25,001-30,000
				$ 3.61	30,001-no limit
Waste	$ 11.00	5,000	N	$ 1.00	5,001-10,000
				$ -	10,001-no limit

** Minimum monthly charge for Montgomery County portion of the district is $10.00

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

Total charges per 10,000 gallons usage:

Water $ 12.36 Wastewater $ 16.00

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
< or = .75"	5,179	5,152	x 1.0	5,152
1"	521	518	x 2.5	1,295
1.5"	90	89	x 5.0	445
2"	91	91	x 8.0	728
3"	8	8	x 15.0	120
4"	3	3	x 25.0	75
6"	5	5	x 50.0	250
8"	5	5	x 80.0	400
12"	1	1	x 115.0	115
Total Water	5,903	5,872		8,580
Total Wastewater	5,664	5,639	x 1.0	5,639

3. Total Water Consumption During the Fiscal Year: (Rounded to the nearest thousand)

Gallons purchased for system:	947,372	Water Accountability Ratio (Gallons billed/Gallons pumped)
Gallons billed to customers:	898,154	94.8%

4. **Standby Fees** (n/a)

5. **Location of District:**

County(ies) in which District is located. Harris and Montgomery
Is the District located entirely within one county? Yes ___ No _X_
Is the District located within a city? Entirely ___ Partly ___ Not at all _X_
City(ies) in which District is located. ____________________
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
Are Board members appointed by an office outside the District?
Yes ___ No _X_
If yes, by whom? ____________________

Harris-Montgomery Counties
Municipal Utility District No. 386

TSI-2

SCHEDULE OF GENERAL FUND EXPENDITURES

Year Ended March 31, 2019

Professional Fees:			
Auditing		$	12,250
Legal			183,357
Engineering			309,358
			504,965
Purchased Services For Resale:			
Bulk Water and Wastewater Service Purchases			6,139,915
Contracted Services:			
Bookkeeping			30,671
Billing and Service Fees			200,292
			230,963
Repairs and Maintenance			589,086
Administrative Expenditures:			
Directors Fees			14,533
Office Supplies and Expenses			101,812
Insurance			7,658
Other Administrative Expenditures			357,277
			481,280
Tap Connections and Inspections			254,782
Capital Outlay			69,661
Total Expenditures		$	8,270,652

	Full-Time	Part-Time
Number of employees employed by the District:	0	0

Harris-Montgomery Counties
Municipal Utility District No. 386

TSI-3

SCHEDULE OF TEMPORARY INVESTMENTS

Year Ended March 31, 2019

Funds	Identification or Certificate Number	Interest Rate (%)	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
General Fund					
Texas Class		Variable	N/A	$ 6,414,330	$
Certificate of deposit	5005061	2.06%	6/28/2019	240,000	3,738
Certificate of deposit	496430	1.70%	5/7/2019	240,000	3,711
Certificate of deposit	44005610	2.70%	3/3/2020	240,000	479
Certificate of deposit	301	2.30%	7/3/2019	240,000	4,098
Certificate of deposit	83170886	2.50%	10/22/2019	240,000	2,663
Certificate of deposit	71111369	2.15%	7/30/2019	240,000	3,478
Certificate of deposit	11828	2.20%	6/1/2019	240,000	4,369
Certificate of deposit	3300041639	1.30%	4/1/2019	120,000	1,564
Certificate of deposit	102270	2.47%	11/2/2019	240,000	2,421
Certificate of deposit	80001522	2.40%	9/26/2019	240,000	2,935
Certificate of deposit	4188591	2.06%	6/5/2019	240,000	4,050
Certificate of deposit	123046783	1.98%	4/10/2019	240,000	4,609
Certificate of deposit	3116002498	2.40%	8/10/2019	240,000	3,677
Certificate of deposit	60000019403	2.10%	6/5/2019	240,000	4,129
Total General Fund				9,654,330	45,921
Debt Service Fund					
Texas Class		Variable	N/A	15,047,197	
Certificate of deposit	96000011861316	0.02	8/10/2019	240,000	3,554
Certificate of deposit	634	0.03	2/11/2020	240,000	868
Certificate of deposit	6762714440	0.02	8/13/2019	240,000	3,646
Certificate of deposit	11747	0.02	1/1/2019	240,000	3,661
Certificate of deposit	9009003853	0.03	2/12/2020	240,000	804
Certificate of deposit	44005370	0.03	2/12/2020	240,000	834
Certificate of deposit	800000662	0.02	8/4/2019	240,000	3,772
Certificate of deposit	4190327	0.03	2/12/2020	240,000	819
Certificate of deposit	2000000043	0.03	2/15/2020	240,000	767
Certificate of deposit	3116002746	0.02	8/22/2019	240,000	3,488
Certificate of deposit	6000002217	0.03	2/11/2020	240,000	821
Certificate of deposit	7649	0.03	8/10/2019	240,000	4,212
Total Debt Service Fund				17,927,197	27,246
Capital Projects Fund					
Texas Class		Variable	N/A	313,320	
Total Capital Projects Fund				313,320	
Total - All Funds				$ 27,894,847	$ 73,167

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Harris-Montgomery Counties
Municipal Utility District No. 386

TSI-4

ANALYSIS OF TAXES LEVIED AND RECEIVABLE

March 31, 2019

	Debt Service Taxes	Maintenance Taxes	Total
Taxes receivable - Beginning of Year	$ 329,133	$ 52,594	$ 381,727
Adjustments	(101,953)	(16,492)	(118,445)
Adjusted taxes receivable	227,180	36,102	263,282
2018 Original Tax Levy	10,272,856	2,297,876	12,570,732
Adjustments and corrections	458,718	102,608	561,326
Adjusted Tax Levy	10,731,574	2,400,484	13,132,058
Total to be Accounted for	10,958,754	2,436,586	13,395,340
Tax Collections			
Current year	10,366,373	2,318,794	12,685,167
Prior years	183,089	29,423	212,512
Total Collections	10,549,462	2,348,217	12,897,679
Taxes Receivable - End of Year	$ 409,292	$ 88,369	$ 497,661
Taxes Receivable - By Tax Years			
2018	$ 365,199	$ 81,692	$ 446,891
2017	26,522	4,310	30,832
2016	9,628	1,292	10,920
2015 and prior	7,943	1,075	9,018
Taxes Receivable - End of Year	$ 409,292	$ 88,369	$ 497,661

Assessed Property Valuations	2018	2017	2016	2015
Land, improvements and personal property	$ 2,824,098,513	$ 2,758,532,278	$ 2,664,174,848	$ 2,369,001,255
Total	$ 2,824,098,513	$ 2,758,532,278	$ 2,664,174,848	$ 2,369,001,255
Tax Rates Per $100 Valuations				
Debt service	$ 0.380	$ 0.400	$ 0.410	$ 0.410
General operations	0.085	0.065	0.055	0.055
Total Tax Rate per $100 Valuation	$ 0.465	$ 0.465	$ 0.465	$ 0.465
Adjusted Tax Levy	$ 13,132,058	$ 12,827,175	$ 12,388,413	$ 11,015,856
Percent of Taxes Collected to Taxes Levied	96.6%	100.0%	100.0%	100.0%

Maximum Tax Rate Approved by Voters: $ 1.25 on 11/7/2006

Harris-Montgomery Counties
Municipal Utility District No. 386

LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS

March 31, 2019

Due During Fiscal Year End March 31	All Series			Unlimited Tax Bonds Series 2010		
	Principal	Interest	Total	Principal	Interest	Total
2020	$ 5,605,000	$ 4,909,264	$ 10,514,264	$ 995,000	$ 19,900	$ 1,014,900
2021	5,825,000	4,736,564	10,561,564			
2022	6,040,000	4,563,026	10,603,026			
2023	6,270,000	4,375,201	10,645,201			
2024	6,540,000	4,172,871	10,712,871			
2025	6,795,000	3,954,727	10,749,727			
2026	7,095,000	3,720,627	10,815,627			
2027	7,400,000	3,476,535	10,876,535			
2028	7,705,000	3,229,741	10,934,741			
2029	8,010,000	2,975,239	10,985,239			
2030	8,325,000	2,700,919	11,025,919			
2031	8,660,000	2,403,022	11,063,022			
2032	8,990,000	2,092,432	11,082,432			
2033	9,360,000	1,771,369	11,131,369			
2034	9,720,000	1,428,702	11,148,702			
2035	10,100,000	1,063,951	11,163,951			
2036	6,835,000	754,711	7,589,711			
2037	5,670,000	526,292	6,196,292			
2038	4,255,000	336,135	4,591,135			
2039	2,620,000	201,738	2,821,738			
2040	2,705,000	99,185	2,804,185			
2041	830,000	31,900	861,900			
	465,000	8,428	473,428			
	$ 145,820,000	$ 53,532,579	$ 199,352,579	$ 995,000	$ 19,900	$ 1,014,900

Due During Fiscal Year End March 31	Unlimited Tax Bonds Series 2011			Unlimited Tax Bonds Series 2012		
	Principal	Interest	Total	Principal	Interest	Total
2020	$ 615,000	$ 61,681	$ 676,681	$ 745,000	$ 614,644	$ 1,359,644
2021	650,000	38,731	688,731	780,000	588,044	1,368,044
2022	685,000	13,272		815,000	566,666	1,381,666
2023				850,000	546,363	1,396,363
2024				890,000	524,613	1,414,613
2025				925,000	499,613	1,424,613
2026				970,000	471,188	1,441,188
2027				1,015,000	441,413	1,456,413
2028				1,060,000	410,288	1,470,288
2029				1,105,000	377,813	1,482,813
2030				1,155,000	343,913	1,498,913
2031				1,210,000	307,681	1,517,681
2032				1,260,000	269,088	1,529,088
2033				1,320,000	227,950	1,547,950
2034				1,380,000	182,350	1,562,350
2035				1,440,000	133,000	1,573,000
2036				1,505,000	81,463	1,586,463
2037				1,575,000	27,563	1,602,563
2038						
2039						
2040						
2041						
	$ 1,950,000	$ 113,684	$ 1,365,412	$ 20,000,000	$ 6,613,653	$ 26,613,653

Due During Fiscal Year End March 31	Unlimited Tax Bonds Series 2014 Principal	Unlimited Tax Bonds Series 2014 Interest	Unlimited Tax Bonds Series 2014 Total	Unlimited Tax Bonds Series 2014A Principal	Unlimited Tax Bonds Series 2014A Interest	Unlimited Tax Bonds Series 2014A Total
2020	$ 745,000	$ 823,494	$ 1,568,494	$ 740,000	$ 867,019	$ 1,607,019
2021	780,000	792,994	1,572,994	775,000	844,294	1,619,294
2022	815,000	761,094	1,576,094	810,000	820,519	1,630,519
2023	855,000	727,694	1,582,694	850,000	795,619	1,645,619
2024	895,000	697,169	1,592,169	890,000	771,744	1,661,744
2025	935,000	669,719	1,604,719	930,000	748,412	1,678,412
2026	980,000	640,381	1,620,381	975,000	721,581	1,696,581
2027	1,030,000	608,331	1,638,331	1,025,000	691,581	1,716,581
2028	1,075,000	573,453	1,648,453	1,070,000	660,156	1,730,156
2029	1,130,000	535,538	1,665,538	1,120,000	626,606	1,746,606
2030	1,180,000	494,375	1,674,375	1,175,000	590,012	1,765,012
2031	1,240,000	448,188	1,688,188	1,230,000	550,162	1,780,162
2032	1,295,000	397,488	1,692,488	1,290,000	506,831	1,796,831
2033	1,360,000	344,388	1,704,388	1,350,000	460,631	1,810,631
2034	1,425,000	288,688	1,713,688	1,415,000	412,244	1,827,244
2035	1,490,000	230,388	1,720,388	1,485,000	360,566	1,845,566
2036	1,560,000	169,388	1,729,388	1,555,000	304,494	1,859,494
2037	1,635,000	104,466	1,739,466	1,625,000	244,869	1,869,869
2038	1,715,000	35,372	1,750,372	1,705,000	180,300	1,885,300
2039				1,785,000	110,500	1,895,500
2040				1,870,000	37,400	1,907,400
2041						
	$ 22,140,000	$ 9,342,608	$ 31,482,608	$ 25,670,000	$ 11,305,540	$ 36,975,540

Due During Fiscal Year End March 31	Unlimited Tax Refunding Bonds Series 2015 Principal	Unlimited Tax Refunding Bonds Series 2015 Interest	Unlimited Tax Refunding Bonds Series 2015 Total	Unlimited Tax Bonds Series 2015A Principal	Unlimited Tax Bonds Series 2015A Interest	Unlimited Tax Bonds Series 2015A Total
2020	$ 105,000	$ 544,712	$ 649,712	$ 370,000	$ 234,763	$ 604,763
2021	110,000	540,937	650,937	370,000	227,363	597,363
2022	115,000	537,012	652,012	370,000	219,962	589,962
2023	115,000	534,137	649,137	365,000	210,787	575,787
2024	980,000	513,388	1,493,388	365,000	201,206	566,206
2025	1,025,000	473,288	1,498,288	365,000	192,538	557,538
2026	1,080,000	431,188	1,511,188	365,000	183,413	548,413
2027	1,130,000	386,988	1,516,988	365,000	174,059	539,059
2028	1,190,000	346,538	1,536,538	365,000	163,793	528,793
2029	1,230,000	310,238	1,540,238	365,000	152,843	517,843
2030	1,275,000	272,663	1,547,663	365,000	141,893	506,893
2031	1,320,000	232,913	1,552,913	365,000	130,715	495,715
2032	1,365,000	190,106	1,555,106	365,000	119,081	484,081
2033	1,420,000	143,962	1,563,962	365,000	107,219	472,219
2034	1,470,000	90,600	1,560,600	365,000	95,357	460,357
2035	1,530,000	30,600	1,560,600	365,000	83,266	448,266
2036				365,000	70,947	435,947
2037				365,000	58,400	
2038				365,000	45,625	410,625
2039				365,000	32,850	397,850
2040				365,000	19,847	384,847
2041				365,000	6,616	371,616
	$ 15,460,000	$ 5,579,270	$ 21,039,270	$ 8,045,000	$ 2,872,543	$ 10,494,143

Harris-Montgomery Counties
Municipal Utility District No. 386

LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS

Due During Fiscal Year End March 31	Unlimited Tax Bonds Series 2016R			Unlimited Tax Bonds Series 2017R		
	Principal	Interest	Total	Principal	Interest	Total
2020	$ 755,000	$ 918,750	$ 1,673,750	$ 65,000	$ 517,988	$ 582,988
2021	1,820,000	893,000	2,713,000	70,000	516,638	586,638
2022	1,890,000	846,450	2,736,450	70,000	515,238	585,238
2023	1,970,000	788,550	2,758,550	795,000	498,638	1,293,638
2024	1,210,000	734,800	1,944,800	840,000	465,938	1,305,938
2025	1,265,000	685,300	1,950,300	880,000	431,538	1,311,538
2026	1,330,000	633,400	1,963,400	925,000	395,438	1,320,438
2027	1,395,000	578,900	1,973,900	970,000	362,388	1,332,388
2028	1,465,000	521,700	1,986,700	1,010,000	332,688	1,342,688
2029	1,535,000	461,700	1,996,700	1,055,000	301,713	1,356,713
2030	1,610,000	398,800	2,008,800	1,095,000	263,988	1,358,988
2031	1,680,000	333,000	2,013,000	1,145,000	219,188	1,364,188
2032	1,750,000	264,400	2,014,400	1,195,000	178,363	1,373,363
2033	1,835,000	192,700	2,027,700	1,240,000	141,838	1,381,838
2034	1,910,000	117,800	2,027,800	1,285,000	103,963	1,388,963
2035	1,990,000	39,800	2,029,800	1,330,000	63,906	1,393,906
2036				1,380,000	21,563	1,401,563
2037						
2038						
2039						
2040						
2041						
	$ 25,410,000	$ 8,409,050	$ 33,819,050	$ 15,350,000	$ 5,331,014	$ 20,681,014

Due During Fiscal Year End March 31	Unlimited Tax Bonds Series 2018 Principal	Interest	Total
2020	$ 470,000	$ 306,313	$ 776,313
2021	470,000	294,563	764,563
2022	470,000	282,813	752,813
2023	470,000	273,413	743,413
2024	470,000	264,013	734,013
2025	470,000	254,319	724,319
2026	470,000	244,038	714,038
2027	470,000	232,875	702,875
2028	470,000	221,125	691,125
2029	470,000	208,788	678,788
2030	470,000	195,275	665,275
2031	470,000	181,175	651,175
2032	470,000	167,075	637,075
2033	470,000	152,681	622,681
2034	470,000	137,700	607,700
2035	470,000	122,425	592,425
2036	470,000	106,856	576,856
2037	470,000	90,994	560,994
2038	470,000	74,838	544,838
2039	470,000	58,388	528,388
2040	470,000	41,938	511,938
2041	465,000	25,284	490,284
	465,000	8,428	473,428
	$ 10,800,000	$ 3,945,317	$ 14,745,317

Harris-Montgomery Counties
Municipal Utility District No. 386

CHANGE IN GENERAL LONG-TERM BONDED DEBT

March 31, 2019

	Unlimited Tax Bonds				
	Series 2009	Series 2010	Series 2011	Series 2012	Series 2014
Interest rate	5.00%	4.0 - 5.25%	3.25 - 3.875%	2.375 - 4.0%	3.0 - 4.125%
Dates interest payable	3/1;9/1	3/1;9/1	3/1;9/1	3/1;9/1	3/1;9/1
Maturity dates	9/1/18-9/1/34	9/1/18-9/1/19	9/1/18-9/1/21	9/1/18-9/1/36	9/1/18-9/1/37
Original Issue	$ 21,230,000	$ 29,775,000	$ 20,400,000	$ 23,260,000	$ 24,785,000
Callable Date	9/1/17	9/1/18	9/1/19	9/1/20	9/1/22
Beginning bonds outstanding	$ 640,000	$ 1,940,000	$ 2,535,000	$ 20,710,000	$ 22,850,000
Bonds sold during the year					
Bonds retired during the year					
Principal retirements	(640,000)	(945,000)	(585,000)	(710,000)	(710,000)
Ending bonds outstanding	$	$ 995,000	$ 1,950,000	$ 20,000,000	$ 22,140,000
Interest paid during the fiscal ye	$ 16,000	$ 64,606	$ 81,950	$ 643,744	$ 852,594
Paying agent's name and city	The Bank of New York Mellon Trust Co., N.A.			Dallas, TX	

Bond Authority:	Tax Bonds*
Amount authorized by voters*	$ 293,500,000
Amount issued	$ 167,870,000
Remaining to be issued**	$ 125,630,000

* Includes all bonds secured with tax revenues. Includes $282,000,000 of bonds for water, sanitary sewer and storm drainage purposes (of which $157,070,000 have been issued) and $11,500,000 of bonds for recreational facilities (none of which have been issued).

Debt Service Fund cash and temporary investments balances at the e	$ 18,173,981
Average annual debt service payment (prinicpal and interest) for rem	$ 8,667,503

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Series 2014A	Series 2015R	Series 2015A	Series 2016R	Series 2017R	Series 2018	Total
2.5 - 4.0%	2.0 - 4.0%	2.0 - 3.625%	2.0 - 4.0%	2.0 - 4.0%	2.0 - 3.625%	
3/1;9/1	3/1;9/1	3/1;9/1	3/1;9/1	3/1;9/1	3/1;9/1	
9/1/18-9/1/39	9/1/18-9/1/34	9/1/18-9/1/40	9/1/18-9/1/35	9/1/18-9/1/35	9/1/19-9/1/41	
$ 28,470,000	$ 15,855,000	$ 9,150,000	$ 25,570,000	$ 15,520,000	10,800,000	
9/1/22	9/1/26	9/1/24	9/1/26	9/1/26	9/1/25	
$ 26,375,000	$ 15,560,000	$ 8,415,000	$ 25,490,000	$ 15,520,000	$	$ 140,035,000
					10,800,000	10,800,000
(705,000)	(100,000)	(370,000)	(80,000)	(170,000)		(5,015,000)
$ 25,670,000	$ 15,460,000	$ 8,045,000	$ 25,410,000	$ 15,350,000	$ 10,800,000	$ 145,820,000
$ 888,694	$ 547,788	$ 242,163	$ 927,099	$ 520,337	133,044	$ 4,918,019

Harris-Montgomery Counties Municipal Utility District No. 386

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL AND DEBT SERVICE FUNDS

Last Five Fiscal Years

	Amounts				
	2019	2018	2017	2016	2015
General Fund Revenues					
Water and sewer service	$ 5,835,224	$ 5,571,745	$ 4,609,031	$ 3,658,329	$ 3,252,470
Property taxes	2,348,217	1,791,011	1,451,955	1,308,704	1,107,268
Penalties and interest	57,038	54,046	68,865	86,451	62,220
Tap connection fees	536,360	604,868	344,958	498,986	1,397,736
Interest and other	484,311	177,770	142,652	297,490	279,510
Total Revenues	9,261,150	8,199,440	6,617,461	5,849,960	6,099,204
General Fund Expenditures					
Current	8,200,991	8,698,123	7,010,660	6,216,905	5,486,404
Capital outlay	69,661	121,221			
Total Expenditures	8,270,652	8,819,344	7,010,660	6,216,905	5,486,404
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 990,498	$ (619,904)	$ (393,199)	$ (366,945)	$ 612,800
Debt Service Fund Revenues					
Property taxes	$ 10,549,462	$ 11,082,446	$ 10,823,491	$ 9,753,615	$ 8,264,068
Penalties and interest	57,545	75,141	75,363	77,568	65,328
Interest and other	367,186	186,950	28,077	24,208	25,411
Total Revenues	10,974,193	11,344,537	10,926,931	9,855,391	8,354,807
Debt Service Fund Expenditures					
Current	187,578	185,393	193,542	182,321	191,066
Debt service	9,938,919	10,006,727	9,846,695	9,393,036	7,552,681
Total Expenditures	10,126,497	10,192,120	10,040,237	9,575,357	7,743,747
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 847,696	$ 1,152,417	$ 886,694	$ 280,034	$ 611,060
Total Active Retail Water Connections	5,871	5,588	5,286	5,098	4,816
Total Active Retail Wastewater Connections	5,639	5,362	5,061	5,068	4,637

Percent of Fund Total Revenues				
2019	**2018**	**2017**	**2016**	**2015**
63.0 %	68.0 %	69.6 %	62.5 %	53.3 %
25.4	21.8	21.9	22.4	18.2
0.6	0.7	1.0	1.5	1.0
5.8	7.4	5.2	8.5	22.9
5.2	2.1	2.3	5.1	4.6
100.0	100.0	100.0	100.0	100.0
88.6	106.1	105.9	106.3	90.0
0.8	1.5			
89.4	107.6	105.9	106.3	90.0
10.6 %	(7.6) %	(5.9) %	(6.3) %	10.0 %
96.1 %	97.7 %	99.1 %	99.0 %	98.9 %
0.5	0.7	0.7	0.8	0.8
3.4	1.6	0.2	0.2	0.3
100.0	100.0	100.0	100.0	100.0
1.7	1.6	1.8	1.8	2.3
90.6	88.2	90.1	95.3	90.4
92.3	89.8	91.9	97.1	92.7
7.7 %	10.2 %	8.1 %	2.9 %	7.3 %

Harris-Montgomery Counties
Municipal Utility District No. 386

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BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

March 31, 2019

Complete District Mailing Address: 1300 Post Oak Blvd., Suite 1400
District Business Telephone Number: (713) 623-4531
Submission date of most recent District Registration Form
(TWC Sections 36.054 and 49.054): 5/24/2018
Limit on Fees of Office that a Director may receive during a fiscal year
(Set by Board Resolution - TWC Section 49.6000): $ 7,200

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid * 03/31/19	Expense Reimburse-ments 03/31/19	Title at Year End
Board Members:				
Emil Jacobs	Elected 5/16-5/20	$ 2,100	$ 47	President
Zachary Toups	Elected 5/16-5/20	3,450		Vice-President
Anthony Compofelice	Elected 5/16-5/20	1,250		Secretary/Treasurer
Chris Boyer	Elected 5/18-5/22	4,050	714	Assistant Vice President
Daniel R. Barbuto	Elected 5/18-5/22	2,100		Assistant Secretary/ Treasurer
Richard Jakovac	Expired term	900		
Consultants:				
Schwartz, Page & Harding L.L.P.	6/26/2003	$ 176,800	$ 2,210	Attorney
Schwartz, Page & Harding L.L.P.	6/26/2003	168,110		Bond Counsel
Municipal Accounts & Consulting, L.P.	6/26/2003	30,671	3,904	Bookkeeper
Harris County Appraisal District	Legislative	96,679		Central Appraisal District
Montgomery Central Appraisal District	Legislative	10,253		Central Appraisal District
IDS Engineering Group	3/1/2012	271,219		Engineer
Knox Cox & Co., L.L.P.	6/1/2007	12,250		Independent Auditor
Municipal District Services, LLC	2/1/2009	193,134	1,019,636	Operator
Ad Valorem Appraisals, Inc.	6/21/2005	75,209		Tax Assessor/Collector

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