

PRELIMINARY OFFICIAL STATEMENT DATED MAY 4, 2020

This Preliminary Official Statement is subject to completion and amendment. Upon sale of the Bonds, the Official Statement will be completed and delivered to the Underwriter.

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF THE DISTRICT AND, IN THE OPINION OF SPECIAL TAX CONSEL, UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX SUBJECT TO THE MATTERS DESCRIBED UNDER “LEGAL MATTERS – TAX EXEMPTION” HEREIN.

THE BONDS WILL BE DESIGNATED “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.

NEW ISSUE – Book Entry Only

Underlying Rating: S&P “A” (stable outlook)
See “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE” herein.

\$3,460,000*

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
(A political subdivision of the State of Texas located within Harris and Fort Bend Counties)
WATERWORKS AND SEWER SYSTEM COMBINATION
UNLIMITED TAX AND REVENUE REFUNDING BONDS
SERIES 2020

Dated: June 1, 2020

Due: September 1, as shown below

The bonds described above (the “Bonds”) are obligations solely of Chelford City Municipal Utility District (the “District”) and are not obligations of the State of Texas, Harris County, Fort Bend County, the City of Houston or any entity other than the District. Principal of the Bonds is payable at maturity at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Co., N.A., Dallas, Texas (the “Paying Agent/Registrar”) upon surrender of the Bonds for payment. Interest on the Bonds accrues from June 1, 2020, and is payable each September 1 and March 1, commencing September 1, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form and in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (September 1)	Principal* Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Due (September 1)	Principal* Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2021	\$ 330,000	%	%		2026	\$ 485,000		%	%
2022	430,000				2027	290,000 (c)			
2023	440,000				2028	285,000 (c)			
2024	455,000				2029	280,000 (c)			
2025	465,000								

- (a) Initial yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from June 1, 2020 to the date fixed for delivery is to be added to the price.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (c) Bonds maturing on or after September 1, 2027, are subject to redemption prior to maturity at the option of the District, in whole or from time-to-time in part, on September 1, 2026, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent Interest Payment Date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property in the District and are further payable from and secured by a pledge of and lien on certain Net Revenues (as defined in the Bond Resolution), if any, of the District's waterworks and sewer system. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. Bond purchasers are encouraged to read this OFFICIAL STATEMENT prior to making an investment decision. The proceeds of the Bonds will be applied to refund certain outstanding bonds of the District and to pay certain costs in connection with the issuance of the Bonds in order to achieve gross and net present value savings. See “PLAN OF FINANCING.”

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINIONS OF BOND COUNSEL AS TO THE VALIDITY OF THE BONDS AND OF SPECIAL TAX COUNSEL TO THE EFFECT THAT INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS. SEE “LEGAL MATTERS” AND “TAX MATTERS” FOR A DISCUSSION OF THE OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL.

The Bonds are offered subject to prior sale, when, as and if issued by the District and accepted by the Underwriters, subject among other things to the approval of the Attorney General of Texas; Coats, Rose P.C., Houston, Texas, Bond Counsel; and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds is expected on or about June 30, 2020.

RAYMOND JAMES

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date hereof, this document constitutes an Official Statement 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 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 representation must not be relied upon as having been authorized by the District.

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas, 77046 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 THE OFFICIAL STATEMENT—Updating the Official Statement.”

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by Raymond James & Associates, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$ _____ (representing the par amount of the Bonds of \$ _____, plus/minus a net premium/discount on the Bonds of \$ _____, less an Underwriter’s discount of \$ _____) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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; nor have the Bonds 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.

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.

INFECTIOUS DISEASE OUTLOOK (COVID-19)

General...

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. As described herein under “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19)”, federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition or its ratings. See “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.” The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition.

HURRICANE HARVEY

General...

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

Impact on District...

According to Si Environmental, LLC (the “Operator”) and Van De Wiele & Vogler, Inc. (the “Engineer”), the District’s water supply and distribution, wastewater collection, and storm drainage facilities did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, the District did not receive notice of any homes or commercial businesses within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

THE DISTRICT

<i>Description...</i>	The District was created by order of the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the "TCEQ"), dated January 23, 1973. The District contains approximately 705 acres of land located in southwestern Harris County and northeastern Fort Bend County just west of State Highway 6 (SH 6), approximately 20 miles from downtown Houston, Texas. Bellaire Boulevard forms a portion of the northern boundary of the District, and the District is bisected by Addicks-Clodine Road. The District lies entirely within the extraterritorial jurisdiction of the City of Houston.
<i>Status of Development...</i>	Development of land in the District began in 1975. The District has been developed as part of the Mission Bend development and includes the following single family residential subdivisions: Mission Bend Sections 4 through 9, Mission Bend North Sections 1 through 3, Mission Bend South Sections 1 through 4, Mission Bend San Gabriel Section 2, Cabildo Square Sections 1 and 2 and San Dario (comprised of approximately 608 acres developed into 2,801 single family residential lots). The value of the houses on the 2019 tax rolls in the District ranges from approximately \$40,000 to \$130,000. As of February, 2020, the District contained 2,801 completed single family residential homes, of which 2,762 were occupied and 39 were unoccupied. The District also contains 36 commercial connections on approximately 40 acres of reserves provided with water, sanitary sewer, and drainage facilities, including a grocery store, two small strip centers, a mini warehouse storage facility, and five other commercial or retail establishments. Approximately 7 acres of such commercial reserves do not have improvements constructed thereon. Approximately 57 acres of land in the District are contained in drainage easements, rights-of-way and a water plant site. All of the land in the District is served with water, sanitary sewer, and drainage facilities. See "THE DISTRICT—Status of Development."
<i>Payment Record...</i>	The District has previously issued six series of waterworks and sewer system combination unlimited tax and revenue bonds and one series of waterworks and sewer system combination unlimited tax and revenue refunding bonds, of which \$7,240,000 principal amount are outstanding as of May 1, 2020 (the "Outstanding Bonds"). The District has never defaulted on its debt service obligations.
<i>Future Debt...</i>	The District has filed a bond application report with the TCEQ and received approval to sell \$1,870,000 principal amount of Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds (the "Series 2020A Bonds"). The District expects to sell such bonds on June 1, 2020. See "THE BONDS—Issuance of Additional Debt" and INVESTMENT CONSIDERATIONS—Future Debt."

THE BONDS

<i>Description...</i>	Chelford City Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2020, in the aggregate principal amount of \$3,460,000* maturing serially on September 1 in each year 2021 through 2029, inclusive. Interest accrues from June 1, 2020, at the rates per annum set forth on the cover page hereof, and is payable September 1, 2020, and each March 1 and September 1 thereafter until the earlier of stated maturity or redemption. The Bonds will be issued as fully registered bonds, pursuant to a resolution authorizing the issuance of the Bonds (the “Bond Resolution”), adopted by the Board of Directors of the District (the “Board”), in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. See “THE BONDS—General.”
<i>Book-Entry-Only...</i>	The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK- ENTRY- ONLY SYSTEM.”
<i>Redemption...</i>	Bonds maturing on or after September 1, 2027 are subject to redemption at the option of the District prior to maturity, in whole or from time to time in part, on September 1, 2026, 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.”
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds, and lawfully available debt service funds of the District, if any, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund \$3,460,000* of the Outstanding Bonds in order to achieve net savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$3,780,000* principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”
<i>Source of Payment...</i>	The Bonds are payable from an annual ad valorem tax upon all taxable property within the District, which, under Texas law, is not limited as to rate or amount (see “TAXING PROCEDURES”) and are further payable from and secured by a pledge of and lien on certain Net Revenues (as defined in the Bond Resolution), if any, of the District’s waterworks and sewer system (the “System”), to the extent and upon the conditions described herein. The System is not expected to produce sufficient Net Revenues to make any contribution to future debt service payments. The Net Revenues are entirely dependent on income derived from the sale of water and sewer services to residents of the District and users of the System. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, Fort Bend County, the City of Houston or any other political subdivision or agency. See “THE BONDS—Source of and Security for Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) has assigned an underlying rating on the Bonds of “A” (stable outlook). The use of insurance and the payment of an insurance premium is at the option and expense of the District. The rating fee of S&P will be paid for by the District; payment of any other rating fee will be the responsibility of the Underwriter. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”
<i>Qualified Tax-Exempt Obligations...</i>	The Bonds will be designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

*Preliminary; subject to change.

<i>Bond Counsel...</i>	Coats Rose, P.C., Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas.
<i>Underwriter’s Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Special Tax Counsel...</i>	McCall, Parkhurst & Horton, L.L.P., Dallas, Texas. See “TAX MATTERS.”
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Co., N.A., Houston, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”
<i>Escrow Agent...</i>	The Bank of New York Mellon Trust Co., N.A., Houston, Texas. See “PLAN OF FINANCING—Payment of the Refunded Bonds.”
<i>Paying Agent for the Refunded Bonds...</i>	Wells Fargo Bank, N.A., Houston, Texas.
<i>Verification Agent...</i>	Public Finance Partners LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

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

2019 Certified Taxable Assessed Valuation.....	\$369,541,650 (a)
Gross Direct Debt Outstanding	\$9,110,000* (b)
Estimated Overlapping Debt	<u>10,847,673</u> (c)
Gross Direct Debt Outstanding and Estimated Overlapping Debt	\$19,957,673*
Ratio of Gross Direct Debt to:	
2019 Certified Taxable Assessed Valuation.....	2.47%*
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Certified Taxable Assessed Valuation.....	5.40%*
Funds Available for Debt Service as of May 4, 2020	\$788,006 (d)
Funds Available in the General Operating Fund as of May 4, 2020	\$4,054,064
Funds Available in the Capital Projects Fund as of May 4, 2020	\$103,681
2019 Debt Service Tax Rate.....	\$0.185
2019 Maintenance Tax Rate.....	<u>0.180</u>
2019 Total Tax Rate	\$0.365
Average percentage of total tax collections (2015-2019).....	98.80%
Maximum Annual Debt Service Requirement (2026).....	\$696,175* (b)
Average Annual Debt Service Requirement (2020-2042).....	\$546,326* (b)
Tax Rate Required to Pay Maximum Annual Debt Service (2026)	
based upon the 2019 Certified Taxable Assessed Valuation at a 95% Collection Rate	\$0.20*
Tax Rates Required to Pay Average Annual Debt Service Requirement (2020-2042)	
based upon the 2019 Certified Taxable Assessed Valuation at a 95% Collection Rate	\$0.16*
Status of water and sewer connections as of February, 2020:	
Single Family – Completed and occupied	2,762
Single Family – Completed and unoccupied	39
Commercial connections.....	36
Other connections	33
Total	2,870
Estimated Population	9,667 (e)

- (a) As certified by the Fort Bend Central Appraisal District and the Harris County Appraisal District (the “Appraisal Districts”). See “TAXING PROCEDURES.”
- (b) After the issuance of the Bonds; excludes the Refunded Bonds and includes the \$1,870,000 Series 2020A Bonds which are expected to sell on June 1, 2020. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”
- (c) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Debt.”
- (d) The District expects to apply approximately \$65,000* of debt service funds towards the issuance of the Bonds.
- (e) Based on 3.5 persons per occupied single-family residence.

*Preliminary; subject to change.

PRELIMINARY OFFICIAL STATEMENT

\$3,460,000*

CHELFORD CITY MUNICIPAL UTILITY DISTRICT

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

**WATERWORKS AND SEWER SYSTEM COMBINATION UNLIMITED TAX AND REVENUE
REFUNDING BONDS
SERIES 2020**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Chelford City Municipal Utility District (the “District”) of its \$3,460,000* Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including without limitation, Chapter 1207 of the Texas Government Code, as amended and Chapters 49 and 54 of the Texas Water Code, as amended, an election held in the District, a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”), and City of Houston Ordinance No. 97-416.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about 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 documents may be obtained from Coats Rose, P.C. (“Bond Counsel”), 9 Greenway Plaza, Suite 1000, Houston, Texas 77046 upon payment of the costs of duplication therefore.

PLAN OF FINANCING

Purpose

The proceeds of the Bonds and lawfully available debt service funds of the District, if any, will be used to currently refund and defease a portion of the District’s Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2009 and Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2012 totaling \$3,460,000* (the “Refunded Bonds”) in order to achieve a net savings in the District’s debt service expense. The proceeds will also be used to pay the costs of issuing the Bonds. See “Sources and Uses of Funds” in this section. A total of \$3,780,000* in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”).

Refunded Bonds

Proceeds of the Bonds, and lawfully available debt service funds of the District, if any, will be applied to currently refund the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

Maturity Date <u>September 1</u>	Series <u>2009*</u>	Series <u>2012*</u>
2021	\$ 350,000	\$ 25,000
2022	370,000	25,000
2023	390,000	25,000
2024	410,000	25,000
2025	430,000	25,000
2026	460,000	25,000
2027	-	300,000
2028	-	300,000
2029	-	300,000
	<u>\$ 2,410,000</u>	<u>\$ 1,050,000</u>

Redemption Date: 7/8/2020* 9/1/2020

The Refunded Bonds will be redeemed on the dates shown above.

*Preliminary; subject to change.

Escrow Agreement and Defeasance of Refunded Bonds

The Refunded Bonds and the interest due thereon, are to be paid on each principal or interest payment date and on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”).

The Bond Resolution provides that the District and the Escrow Agent will enter into an escrow agreement (the “Escrow Agreement”) to provide for the discharge and defeasance of the Refunded Bonds. The Bond Resolution further provides that from the proceeds of the sale of the Bonds and other available funds of the District, if any, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the “Escrow Fund”) and used to purchase United States Treasury Obligations or other investments authorized by Chapter 1207, Texas Government Code (the “Escrowed Securities”). At the time of delivery of the Bonds, Public Finance Partners LLC will verify to the District, the Escrow Agent and the Underwriter that the Escrowed Securities are sufficient in principal amount and are scheduled to mature at such times and to yield interest in such amounts, together with uninvested funds, if any, in the Escrow Fund, to pay, when due, the principal of and interest on the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.” Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds. By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior resolutions of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited and invested in the Escrow Fund will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

Sources and Uses of Funds

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

Sources of Funds:

Principal Amount of the Bonds	\$ _____
Plus/Less: Net Premium/Discount on the Bonds	_____
Plus: Debt Service Fund Contribution	_____
Total Sources of Funds	\$ _____

Uses of Funds:

Deposit to Escrow Fund	\$ _____
Issuance Expenses and Underwriter’s Discount (a)	_____
Total Uses of Funds	\$ _____

(a) Includes municipal bond insurance premium.

THE BONDS

General

Following is a description of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution of the Board authorizing the issuance and sale of the Bonds. The Bond Resolution 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.

The Bonds will be dated and accrue interest from June 1, 2020, with interest payable on each September 1 and March 1 commencing September 1, 2020, until the earlier of maturity or prior redemption. The Bonds mature on September 1 in the amounts and years and accrue interest at the rates shown on the cover page of this Official Statement. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

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

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

Authority for Issuance

At various bond elections held within the District, the voters of the District authorized the issuance of a total of \$32,300,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds for the purposes of constructing water, sanitary sewer and drainage facilities and for refunding purposes. See "Issuance of Additional Debt." The Bonds are issued pursuant to such authorization.

The Bonds are issued by the District pursuant to the terms and provisions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including without limitation, Chapter 1207 of the Texas Government Code, as amended and Chapters 49 and 54 of the Texas Water Code, as amended, and City of Houston Ordinance No. 97-416.

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

Source of and Security for Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants in the Bond Resolution to levy a continuing, direct, annual ad valorem tax, without legal limit as to rate or amount, upon all taxable property in the District sufficient to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection.

The Bonds are further payable from and secured by a pledge of and lien on certain Net Revenues, if any, of the District's water and sewer system (the "System"). Net Revenues are defined by the Bond Resolution as all income that is derived from the ownership and operation of the District's System as the same is purchased, constructed or otherwise acquired, which remains after deducting the operation and maintenance expenses of the System, but not including income derived from contracts that are pledged for payment of any special project bonds that may be issued. It is not expected that the Net Revenues will ever be sufficient to contribute to debt service payments. The Net Revenues are entirely derived from the sale of water and sewer services to residents of the District and users of the System.

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

Funds

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

Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. Any monies remaining after the payment of issuance costs will be deposited into the Debt Service Fund.

No Arbitrage

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

Redemption Provisions

Bonds maturing on or after September 1, 2027 are subject to redemption prior to maturity, in whole or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2026, 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.

Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). If less than all the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the District prior to the redemption date by such random method as the District shall deem fair and appropriate (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

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

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

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

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

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the forty-five (45) day period prior to the date fixed for redemption of such Bond.

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

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 to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

The District may issue additional bonds necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. After issuance of the Bonds, the District will have \$11,625,000* principal amount of waterworks and sewer system combination unlimited tax and revenue bonds authorized but unissued for acquiring or constructing water, sanitary sewer and drainage facilities and for refunding outstanding bonds. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District’s voters or the amount ultimately issued by the District. The District has filed a bond application report with the TCEQ and received approval to sell \$1,870,000 principal amount of Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds. The District expects to sell such bonds on June 1, 2020. See “INVESTMENT CONSIDERATIONS—Future Debt.”

*Preliminary; subject to change.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) authorization of park bonds by the qualified voters in the District; (b) approval of the park project and bonds by the TCEQ; and (c) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The District has not considered authorizing preparation of a park plan nor calling a park bond election at this time.

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. Further, the District could seek approval by the Texas Legislature to acquire road powers. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ or the State Legislature, 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 seeking "road powers" nor calling such an election at this time.

After approval by the District's voters, the City of Houston and the TCEQ, the District also has the power to issue unlimited tax bonds for the purpose of providing fire-fighting facilities. The District has not considered calling an election to authorize bonds for fire-fighting facilities at this time.

Annexation by the City of Houston

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

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

Strategic Partnership

On December 17, 2003, the District entered into a Strategic Partnership Agreement ("SPA") with the City whereby the tract of land containing commercial development was annexed into the City for the limited purpose of applying certain of the City's Planning, Zoning, Health and Safety Ordinances to the commercial business and to impose a sales tax. The City imposes a Sales and Use Tax within the annexed tract on the receipts from the sale and use at retail of taxable items at the rate of one percent (1%) or such other rate as may be imposed by the City from time to time. Under the SPA, one-half (1/2) or fifty percent (50%) of the sales tax revenue generated by the commercial business is paid to the District, and the District can use the sales tax revenue to (1) accelerate the development of water, wastewater, and drainage systems in the District; (2) accelerate reimbursement to developers for eligible infrastructure development; (3) lower the overall property tax rate to encourage additional development; and (4) perform other District functions that might otherwise be diminished, curtailed, abbreviated, or delayed by financial limitations.

The Sales and Use Tax was implemented within the annexed area on December 17, 2003. The Comptroller of Public Accounts of the State of Texas remits the sales revenues to the City and the City then disburses to the District its share of the tax revenues.

Neither the District nor any owners of taxable property in the District are liable for any present or future debts of the City, and current and future ad valorem taxes levied by the City will not be levied on taxable property in the District.

Under the SPA, the City has agreed that it will not annex all or part of the District for "full" purposes (a traditional municipal annexation) for a period of thirty (30) years or through December 17, 2033.

The Bonds are not obligations of the City and the SPA does not obligate the City, either directly or indirectly, to pay the principal of and interest on the Bonds.

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater systems of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation and the District currently is not contemplating consolidation.

Remedies in Event of Default

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry-only 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 so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, 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+” by 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 effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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.

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 thereof.

THE DISTRICT

General

The District is a municipal utility district created by order of the Texas Water Rights Commission, predecessor to the TCEQ, dated January 23, 1973, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes applicable to municipal utility districts. The District is located wholly within the exclusive extraterritorial jurisdiction of the City of Houston, Texas (“Houston” or the “City”).

The District is empowered, among other things, to 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 is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the City, the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance parks and recreational facilities and roads.

The TCEQ exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City which limit the purposes for which the District may sell bonds to 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 for construction plans; and permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City. Construction and operation of the District's system are subject to the regulatory jurisdiction of additional government agencies. See “THE SYSTEM.”

The District contains approximately 705 acres of land and is located approximately 20 miles west of downtown Houston, approximately one-half mile west of State Highway 6 (“SH 6”). Bellaire Boulevard forms a portion of the northern boundary of the District, and the District is bisected by Addicks-Clodine Road.

Status of Development

Development of land in the District began in 1975. The District has been developed as part of the Mission Bend development and includes the following single family residential subdivisions: Mission Bend Sections 4 through 9, Mission Bend North Sections 1 through 3, Mission Bend South Sections 1 through 4, Mission Bend San Gabriel Section 2, Cabildo Square Sections 1 and 2 and San Dario (comprised of approximately 608 acres developed into 2,801 single family residential lots). The value of the houses on the 2019 tax rolls in the District ranges from approximately \$40,000 to \$130,000. As of February, 2020, the District contained 2,801 completed single family residential homes, of which 2,762 were occupied and 39 were unoccupied. The District also contains 36 commercial connections on approximately 40 acres of reserves provided with water, sanitary sewer, and drainage facilities, including a grocery store, two small strip centers, a mini warehouse storage facility, and five other commercial or retail establishments. Approximately 7 acres of such commercial reserves do not have improvements constructed thereon. Approximately 57 acres of land in the District are contained in drainage easements, rights-of-way and a water plant site. All of the land in the District is served with water, sanitary sewer, and drainage facilities.

Community Facilities

Community facilities are available in the general vicinity of the District. Neighborhood shopping facilities, including supermarkets, pharmacies, cleaners, restaurants, banking facilities, and other retail and service establishments, are located within two miles of the District in the Mission Bend area and those areas adjacent to SH 6. West Oaks Mall, a regional shopping center, is located at the intersection of SH 6 and Westheimer Road approximately two miles northeast of the District. Fire protection is provided by the Community Volunteer Fire Department, which operates from a fire station located in the District.

Two neighborhood recreation centers are located in the District for use by members of the homeowners associations. One facility includes a swimming pool and tennis courts; the other contains a swimming pool. The portion of the District located in Harris County is within the boundaries of the Alief Independent School District and the portion of the District located in Fort Bend County is within the boundaries of the Fort Bend Independent School District.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board of Directors, consisting of five directors, which has control over and management supervision of all affairs of the District. All of the Directors listed below reside within the District. Directors are elected by the voters within the District for four-year staggered terms. Directors' elections are held only in May of odd numbered years. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John L. Gardner	President	May 2023
Johnnie M. Brumfield	Vice President	May 2023
Darrell W. Diestel	Secretary	May 2021
David L. Walker	Assistant Vice President / Assistant Secretary	May 2023
Anna Ochoa	Treasurer / Assistant Secretary	May 2021

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: The District has engaged Coats Rose, P.C. as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

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

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed the TCEQ. The District's financial statements for the year ended September 30, 2019, were audited by McCall Gibson Swedlund Barfoot PLLC. See "APPENDIX A" for a copy of the District's September 30, 2019, financial statements.

Engineer: The District's consulting engineer is Van De Wiele & Vogler, Inc.

Tax Appraisal and Collections: The Harris County Appraisal District and Fort Bend Central Appraisal District have the responsibility of appraising all property within the District. The District's Tax Assessor/Collector is appointed by the Board of Directors of the District. Bob Leared Interests is currently serving in this capacity for the District. See "TAXING PROCEDURES."

Bookkeeper: The District has contracted with McLennan & Associates, L.P. (the "Bookkeeper") for bookkeeping services.

Operator: The operation and maintenance of the District's water and wastewater systems are overseen by Si Environmental, LLC.

THE SYSTEM

Regulation

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

Water and Sanitary Sewer Facilities

Source of Water Supply: The District is part of the Mission Bend Integrated Water System which includes the District, Chelford One Municipal Utility District and Mission Bend Municipal Utility Districts Nos. 1 and 2. The integrated system is served by 9,800 gallons per minute ("gpm") of well capacity; 212,000 gallons of pressure tank capacity; 3,780,000 gallons of ground storage tank capacity; 2,000,000 gallons of elevated storage capacity; and 14,200 gpm of booster pump capacity. According to the District's Engineer, the integrated system's facilities are capable of serving approximately 16,333 equivalent single family connections. The District currently serves approximately 2,804 equivalent single family connections, and the integrated system currently serves approximately 9,075 equivalent single family connections. The District is currently obtaining all of its water from ground water sources.

Subsidence and Conversion to Surface Water Supply: The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in areas within the Subsidence District's jurisdiction. In 2001, the Texas legislature created the West Harris County Regional Water Authority (the "Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County (including the District). The Authority has entered into a Water Supply Contract with the City to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District is included within the Authority's GRP.

The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority's GRP. The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and a fee per 1,000 gallons of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$9.24 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total annual water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

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

Source of Wastewater Treatment: Permanent wastewater treatment is provided by the Chelford City Regional Wastewater Treatment Plant (the "Regional Plant"), which has a total capacity of 11.0 million gallons per day ("gpd"). The District owns 864,600 gpd of capacity in the Regional Plant, which, according to the District's Engineer, should be sufficient to serve approximately 2,882 equivalent single family connections. The District currently serves approximately 2,804 equivalent single family connections.

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.

According to the District's Engineer, a total of approximately 20 acres of land in the District lie within the 100-Year flood plain as shown on the current Federal Emergency Management Agency's Digital Flood Insurance Rate Maps (Panel Nos. 810 of 1150 map no. 48201C0810L, dated June 18, 2007) for Harris County. Approximately 3 acres is within commercial tracts along Bellaire Boulevard. The remainder of the floodplain is within Bellaire Boulevard and the drainage channel within the District. No residences or commercial businesses within the District are within the 100-year floodplain. See "INVESTMENT CONSIDERATIONS—Extreme Weather Events."

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$369,541,650 (a)
Gross Direct Debt Outstanding	\$9,110,000* (b)
Estimated Overlapping Debt.....	<u>10,847,673 (c)</u>
Gross Direct Debt Outstanding and Estimated Overlapping Debt	\$19,957,673*
Ratio of Gross Direct Debt to:	
2019 Certified Taxable Assessed Valuation.....	2.47%*
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Certified Taxable Assessed Valuation.....	5.40%*
Funds Available for Debt Service as of May 4, 2020	\$788,006 (d)
Funds Available in the General Operating Fund as of May 4, 2020	\$4,054,064
Funds Available in the Capital Projects Fund as of May 4, 2020	\$103,681

- (a) As certified by the Fort Bend Central Appraisal District and the Harris County Appraisal District (the “Appraisal Districts”). See “TAXING PROCEDURES.”
- (b) After the issuance of the Bonds; excludes the Refunded Bonds and includes the \$1,870,000 Series 2020A Bonds which are expected to sell on June 1, 2020. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”
- (c) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Debt.”
- (d) The District expects to apply approximately \$65,000* of debt service funds towards the issuance of the Bonds.

Investments of the District

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

Outstanding Bonds

The following table lists the original principal amount of Outstanding Bonds, and the current amount of the Outstanding Bonds, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds*	Remaining Outstanding Bonds*
2009	\$ 4,800,000	\$ 2,740,000	\$ 2,410,000	\$ 330,000
2012	1,150,000	1,075,000	1,050,000	25,000
2016	3,425,000	3,425,000	-	3,425,000
2020A (a)	<u>1,870,000</u>	<u>1,870,000</u>	<u>-</u>	<u>1,870,000</u>
Total	\$ 11,245,000	\$ 7,240,000	\$ 3,460,000	\$ 5,650,000 *
The Bonds				<u>3,460,000 *</u>
The Bonds and Remaining Outstanding Bonds				\$ 9,110,000 *

(a) The District expects to sell the \$1,870,000 Series 2020A Bonds on June 1, 2020 and close in July 2020.

*Preliminary; subject to change.

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$3,460,000* principal amount), plus the estimated debt service on the Bonds, plus the estimated debt service on the Series 2020A Bonds at an estimated interest rate per annum of 4.00%.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds*	Plus: Debt Service on the Bonds*			Plus: Debt Service on the 2020A Bonds*			Total Debt Service Requirements*
			Principal	Interest	Total	Principal	Interest	Total	
2020	\$ 594,038	\$ 67,694		\$ 17,275	\$ 17,275		\$ 15,583	\$ 15,583	\$ 559,202
2021	601,263	510,388	\$ 330,000	154,100	484,100		93,500	93,500	668,475
2022	606,450	515,575	430,000	62,600	492,600		93,500	93,500	676,975
2023	610,838	519,963	440,000	54,000	494,000		93,500	93,500	678,375
2024	614,425	523,550	455,000	45,200	500,200		93,500	93,500	684,575
2025	617,213	526,338	465,000	36,100	501,100		93,500	93,500	685,475
2026	628,663	537,788	485,000	26,800	511,800		93,500	93,500	696,175
2027	573,875	333,000	290,000	17,100	307,100	\$ 15,000	93,500	108,500	656,475
2028	560,000	322,500	285,000	11,300	296,300	20,000	92,750	112,750	646,550
2029	545,375	311,250	280,000	5,600	285,600	25,000	91,750	116,750	636,475
2030	505,750	-	-	-	-	30,000	90,500	120,500	626,250
2031	495,656	-	-	-	-	35,000	89,000	124,000	619,656
2032	485,031	-	-	-	-	40,000	87,250	127,250	612,281
2033	473,875	-	-	-	-	45,000	85,250	130,250	604,125
2034	462,188	-	-	-	-	50,000	83,000	133,000	595,188
2035	450,500	-	-	-	-	50,000	80,500	130,500	581,000
2036	437,750	-	-	-	-	60,000	78,000	138,000	575,750
2037	-	-	-	-	-	250,000	75,000	325,000	325,000
2038	-	-	-	-	-	250,000	62,500	312,500	312,500
2039	-	-	-	-	-	250,000	50,000	300,000	300,000
2040	-	-	-	-	-	250,000	37,500	287,500	287,500
2041	-	-	-	-	-	250,000	25,000	275,000	275,000
2042	-	-	-	-	-	250,000	12,500	262,500	262,500
Total	\$ 9,262,888	\$ 4,168,044	\$ 3,460,000	\$ 430,075	\$ 3,890,075	\$ 1,870,000	\$ 1,710,583	\$ 3,580,583	\$ 12,565,502

Maximum Annual Debt Service Requirement (2026).....\$696,175*
Average Annual Debt Service Requirement (2020-2042).....\$546,326*

*Preliminary; subject to change.

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	Amount
Harris County.....	\$ 1,885,182,125	2/29/2020	0.03%	\$ 565,555
Harris County Flood Control District.....	83,075,000	2/29/2020	0.03%	24,923
Port of Houston Authority.....	572,569,397	2/29/2020	0.03%	171,771
Alief Independent School District.....	264,517,000	2/29/2020	0.95%	2,512,912
Houston Community College System.....	528,150,000	2/29/2020	0.07%	369,705
Harris County Hospital District.....	55,005,000	2/29/2020	0.03%	16,502
Harris County Department of Education.....	6,320,000	2/29/2020	0.03%	1,896
Fort Bend County.....	594,872,527	2/29/2020	0.30%	1,784,618
Fort Bend ISD.....	1,079,958,767	2/29/2020	0.50%	5,399,794
Total Estimated Overlapping Debt.....				\$ 10,847,673
The District.....	9,110,000 *(a)	Current	100.00%	9,110,000 *
Total Direct and Estimated Overlapping Debt.....				\$ 19,957,673 *
Direct and Estimated Overlapping Debt as a Percentage of:				
2019 Certified Taxable Assessed Valuation.....				5.40% *

(a) The Bonds, the Remaining Outstanding Bonds and the \$1,870,000 Series 2020A Bonds expected to sell on June 1, 2020 and close in July 2020.

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 (see “Estimated Overlapping Debt” above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

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

	2019 Tax Rate per \$100 of Taxable Assessed Valuation	
	<u>Portion in Harris County</u>	<u>Portion in Fort Bend County</u>
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	
Alief Independent School District.....	1.244100	
Houston Community College System.....	0.100263	
Fort Bend County (including Fort Bend Drainage District).....		\$ 0.460000
Fort Bend Independent School District.....		1.270000
Harris-Fort Bend Emergency Service District No. 100.....	<u>0.100000</u>	<u>0.100000</u>
Total Overlapping Tax Rate.....	\$ 2.061063	\$ 1.830000
The District.....	<u>0.365000</u>	<u>0.365000</u>
Total Tax Rate.....	\$ 2.426063	\$ 2.195000

TAX DATA

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. For the 2019 tax year, the Board levied a debt service tax in the amount of \$0.185 per \$100 assessed valuation. See “Tax Rate Distribution” and “Tax Roll Information” below.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. On September 14, 2002, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$0.50 per \$100 of assessed valuation. For the 2019 tax year, the Board levied a maintenance tax in the amount of \$0.180 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds.

Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$ 0.185	\$ 0.185	\$ 0.200	\$ 0.215	\$ 0.235
Maintenance and Operations	0.180	0.185	0.190	0.185	0.190
Total	\$ 0.365	\$ 0.370	\$ 0.390	\$ 0.400	\$ 0.425

Historical Tax Collections

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

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of April 30, 2020 (a)	
				Amount	Percent
2015	\$261,088,230	\$ 0.425	\$ 1,109,626	\$ 1,107,758	99.83%
2016	288,413,836	0.400	1,153,655	1,149,736	99.66%
2017	313,784,313	0.390	1,223,555	1,215,705	99.36%
2018	340,299,292	0.370	1,258,719	1,245,246	98.93%
2019	369,541,650	0.365	1,348,048	1,297,379	96.24%

(a) Unaudited collections.

Tax Exemptions

As discussed in the section titled “TAXING PROCEDURES” herein, certain property in the District may be exempt from taxation by the District. For tax year 2020, the District has adopted a 20% homestead exemption for any residential homesteads in the District and has granted a \$20,000 exemption for residential homesteads of persons who are disabled or 65 years of age or over.

Additional Penalties

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

Tax Roll Information

The District’s assessed value as of January 1 of each year is used by the District in establishing its tax rate. The following represents the composition of property comprising the 2017 through 2019 Certified Taxable Assessed Valuation. Taxes are levied on taxable value certified by the Appraisal Districts as of January 1 of each year. See “TAXING PROCEDURES.”

	2019 Certified Taxable Assessed Valuation	2018 Certified Taxable Assessed Valuation	2017 Certified Taxable Assessed Valuation
Land	\$ 79,515,430	\$ 72,333,403	\$ 72,490,935
Improvements	364,521,606	340,708,204	315,519,121
Personal Property	5,320,936	5,253,601	5,343,840
Exemptions	(79,816,322)	(77,995,916)	(79,569,583)
Total	<u>\$ 369,541,650</u>	<u>\$ 340,299,292</u>	<u>\$ 313,784,313</u>

Principal Taxpayers

The following table represents the principal taxpayers, the taxable appraised value of such property, and such property’s taxable appraised value as a percentage of the 2019 Certified Taxable Assessed Valuation of \$369,541,650, which represents ownership as of January 1, 2019.

Taxpayer	Type of Property	2019 Certified Taxable Assessed Valuation	% of 2019 Certified Taxable Assessed Valuation
Cubsmart LP	Land & Improvements	\$ 4,396,747	1.19%
Central Summit Group Inc.	Land & Improvements	4,170,324	1.13%
Home SFR Borrower LLC	Land & Improvements	1,694,678	0.46%
Cerberus SFR Holdings LP	Land & Improvements	1,667,055	0.45%
Ho Son V	Land & Improvements	1,340,000	0.36%
Centerpoint Energy Electric	Personal Property	1,205,950	0.33%
Centerpoint Energy Houston Electric	Personal Property	1,154,200	0.31%
JEDL Enterprises Inc.	Land & Improvements	1,034,049	0.28%
Kacci Group LLC	Land & Improvements	988,395	0.27%
Centerpoint Energy Entex	Personal Property	903,090	0.24%
Total		<u>\$ 18,554,488</u>	<u>5.02%</u>

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District’s tax base occurred beyond the 2019 Certified Taxable Assessed Valuation. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, and the sale of no additional bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”

Maximum Annual Debt Service Requirement (2026)	\$696,175*(a)
\$0.20* Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$702,129*
 Average Annual Debt Service Requirement (2020-2042)	 \$546,326*(a)
\$0.16* Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$561,703*

(a) Includes the \$1,870,000 Series 2020A Bonds expected to sell on June 1, 2020 and close in July 2020.

*Preliminary; subject to change.

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. For 2020, the Board applied a homestead exemption of \$20,000 for persons who are disabled or 65 years or older. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran’s residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a residence homestead exemption equal to exemption received by the deceased spouse until such surviving spouse remarries. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See “TAX DATA.”

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) (not less than \$5,000) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year but must be adopted by May 1. For tax year 2020, the District has granted a 20% general homestead exemption. See “TAX DATA.”

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

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the applicable Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Generally, assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to a cumulative 10 percent annual increase regardless of the market value of the property.

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

The Property Tax Code requires the Appraisal Districts to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal Districts 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. The District, however, at its expense has the right to obtain from the Appraisal Districts a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal Districts chooses formally to include such values on its appraisal roll.

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

District and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal Districts to compel compliance with the Property Tax Code. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. However, a person who is (i) 65 years of age or older, (ii) disabled or (iii) a disabled veteran, entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead, if the person requests an installment agreement and has not entered into an installment

agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected.

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 "Special Taxing Units." 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.

Special Taxing Units: Special Taxing Units that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead 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 Special Taxing Unit 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 Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "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; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

The Effect of FIRREA on Tax Collections of the District

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

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

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

WATER AND SEWER OPERATIONS

General

The Bonds and the Remaining Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District and are further payable from and secured by a pledge of and lien on Net Revenues of the District's waterworks and sanitary sewer system. It is not anticipated that any Net Revenues will be available for debt service on the Bonds and the Remaining Outstanding Bonds in the foreseeable future.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's water and sewer system. Accounting principles customarily employed in the determination of net revenues for coverage of debt service have been observed and in all instances exclude depreciation. This summary has been prepared for inclusion herein based upon information obtained from the District's audited financial statements for fiscal years ended September 30, 2016 through September 30, 2019 and from the District's bookkeeper for the year to date numbers as of April 30, 2020. Reference is made to "APPENDIX A" for further and complete information.

	Fiscal Year Ended September 30				
	10/1/19 to 4/30/20 (a)	2019	2018	2017	2016
Revenues					
Property Taxes	\$ 642,507	\$ 624,489	\$ 594,759	\$ 533,566	\$ 496,410
Water Service	318,389	528,364	533,722	591,044	578,466
Wastewater Service	317,119	554,435	533,563	531,675	534,281
Water Authority Fees	409,618	720,752	681,766	557,905	557,905
Penalty and Interest	24,282	42,491	40,488	45,048	45,048
Tap Connection and Sewer Inspection Fees	3,200	35,697	53,051	83,150	7,575
Sales Tax Revenues	7,639	17,790	18,103	18,854	22,826
Miscellaneous Revenues	97,742	189,188	168,305	145,743	112,972
Total Revenues	\$ 1,820,496	\$ 2,713,206	\$ 2,623,757	\$ 2,506,985	\$ 2,355,483
Expenditures					
Professional Fees	\$ 127,404	\$ 141,243	\$ 120,061	\$ 126,132	\$ 131,073
Contracted Services	41,676	98,251	96,021	94,606	94,034
Purchased Water Service	491,268	772,339	762,842	699,128	644,460
Purchased Wastewater Service	267,773	345,215	427,422	502,483	334,440
Utilities	-	-	1,485	2,376	3,564
Repairs and Maintenance	368,967	422,223	258,823	416,716	456,733
Other	109,657	390,944	301,805	288,892	283,930
Capital Outlay	-	-	-	122,725	137,687
Total Expenditures	\$ 1,406,745	\$ 2,170,215	\$ 1,968,459	\$ 2,253,058	\$ 2,085,921
Net Revenues	\$ 413,751	\$ 542,991	\$ 655,298	\$ 253,927	\$ 269,562
Other Financing Sources:					
Transfer to (from) Other Fund	\$ -	\$ -	\$ -	\$ 79,182	\$ -
Net Change in Fund Balances / Net Position	\$ 413,751	\$ 542,991	\$ 655,298	\$ 333,109	\$ 269,562
Fund Balance (Beginning of Year)	\$ 4,370,160	\$ 3,827,169	\$ 3,171,871	\$ 2,838,762	\$ 2,569,200
Fund Balance (End of Year)	\$ 4,783,911	\$ 4,370,160	\$ 3,827,169	\$ 3,171,871	\$ 2,838,762

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

INVESTMENT CONSIDERATIONS

General

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

Infectious Disease Outlook (COVID-19)

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of COVID-19 upon the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition or its ratings. See "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE." The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

Potential Effects of Oil Price Declines on the Houston Area

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

Extreme Weather Events

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

According to Si Environmental, LLC (the “Operator”) and Van De Wiele & Vogler, Inc. (the “Engineer”), the District's water supply and distribution, wastewater collection, and storm drainage facilities did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, the District did not receive notice of any homes or commercial businesses within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

River (or Fluvial) Flood: 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 sheetflow overland. 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 floods are very dangerous and destructive not only because of the force of the water, but also the hurtling debris that is often swept up in the flow. They can occur within minutes or a few hours of excessive rainfall. They can also occur even if no rain has fallen, for instance, after a levee or dam has failed, or after a sudden release of water by a debris or ice jam. Controlled releases from a dam or levee also could potentially create a flooding condition in rivers or man-made drainage systems (canals or channels) downstream.

Ponding (or Pluvial) Flood: occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can over capacitate a drainage system which becomes trapped and flows out into streets and nearby structures until it reaches a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam or levee.

Maximum Impact on District Tax Rate

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2019 Certified Taxable Assessed Valuation is \$369,541,650. After issuance of the Bonds, the maximum debt service requirement will be \$696,175* (2026), and the average annual debt service requirement will be \$546,326* (2020-2042 inclusive). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.20* and \$0.16* per \$100 of appraised valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum debt service requirement and the average annual debt service requirement, respectively. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of \$32,300,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds have been authorized by the District's voters for the purposes of acquiring or constructing water, sanitary sewer and drainage facilities and for refunding existing bonds. After the issuance of the Bonds, \$11,625,000* of such bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes.

If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds. The District has filed a bond application report to the TCEQ and received approval to sell \$1,870,000 principal amount of Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds. The District expects to sell such bonds on June 1, 2020.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations or flood plain mapping could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

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.

Registered Owners' Remedies and Bankruptcy Limitations

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

*Preliminary; subject to change.

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

Notwithstanding noncompliance by a district with Texas law requirements, 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 the collateral or security arrangements, substituting (in whole or in part) other Bonds, 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.

Environmental Regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

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:

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

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

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

Changes in Tax Legislation

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

MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) has assigned an underlying rating of “A” (stable outlook) to the Bonds. An explanation of such rating may be obtained from S&P, 55 Water Street, New York, New York 10041.

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

Application has also been made to a municipal bond insurance company for qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the District’s option and expense.

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to (i) the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from a continuing, direct annual ad valorem tax levied without limit as to rate or amount upon all taxable property within the District, and the net revenues, if any, from the System, and (ii) the legal opinion of Bond Counsel, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law and from certain net revenues, if any, of the District's waterworks and sewer system. Special Tax Counsel's opinion will address the matters described below under "TAX MATTERS." The legal opinion of Bond Counsel may be printed on the Bonds. Such opinion will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

In addition to serving as Bond Counsel, Coats Rose, P.C. also acts as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid 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.

No Material Adverse Change

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

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law") (i) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (ii) the Bonds will not be treated as "specified private activity bonds" the interest of which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Special Tax Counsel to the District will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Special Tax Counsel will rely upon (a) the opinion of Coats Rose, P.C., Bond Counsel, that the Bonds are valid and binding obligations of the District payable from the proceeds of a generally-applicable ad valorem tax, [(b) the District's federal tax certificate and the verification report prepared by Public Finance Partners LLC and (c) covenants of the District with respect to arbitrage compliance, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. 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.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Special Tax Counsel to the District is conditioned on compliance by the District with such requirements, and Special Tax Counsel to the District has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Special Tax Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Special Tax Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. 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 the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Special Tax Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the [principal amount] [maturity amount] thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, 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 would constitute original issue discount. 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, any owner who has purchased such Original Issue Discount Bond in the initial public offering 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 accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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 the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount 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 the treatment 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.

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 statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, 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 taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

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

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

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

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the funds deposited to the Escrow Fund for the payment of the Refunded Bonds; (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes, and (c) compliance with City of Houston Ordinance No. 97-416.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District’s retained advisors, consultants or legal counsel.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT. 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.

Bond Counsel

Coats Rose P.C. is employed as Bond Counsel for the District and has reviewed the information appearing in this Official Statement under the captions “PLAN OF FINANCING—Escrow Agreement and Defeasance of Refunded Bonds,” “THE BONDS,” “THE DISTRICT—General,” “TAXING PROCEDURES,” “LEGAL MATTERS,” AND “CONTINUING DISCLOSURE OF INFORMATION.” Bond Counsel has reviewed the information under the aforementioned sections solely to determine whether such information fairly summarizes the law or documents referred to in such sections. Bond Counsel has not independently verified other factual information contained in this Official Statement nor 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 the limited participation of such firm 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.

Consultants

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

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the System and, in particular that information included in the sections entitled “THE DISTRICT” and “THE SYSTEM” has been provided by Van De Wiele & Vogler, Inc., Consulting Engineers, and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal Districts: The information contained in this Official Statement relating to the historical breakdown of the certified taxable appraised valuations, have been provided by the Harris County Appraisal District and the Fort Bend Central Appraisal District and have been included herein in reliance upon the authority of such entities as experts in assessing the values of property in Harris County and Fort Bend County, including the District.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Bob Leared Interests and is included herein in reliance upon its authority as an expert in assessing and collecting taxes.

Auditor: The District’s financial statements for the year ended September 30, 2019, were audited by McCall Gibson Swedlund Barfoot PLLC. See “APPENDIX A” for a copy of the District’s September 30, 2019 financial statements.

Bookkeeper: The information related to the “unaudited” summary of the District’s General Operating Fund as it appears in “GENERAL FUND” has been provided by McLennan & Associates, 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 Underwriter, of any adverse event which causes the OFFICIAL STATEMENT to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the OFFICIAL STATEMENT satisfactory to the Underwriter, provided, however, that the obligation of the District to the Underwriter to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District’s obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

Certification of Official Statement

The District, acting through its Board 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

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

Annual Reports

The District will provide certain financial information and operating data that is customarily prepared and publicly available annually to the MSRB. The financial information and operating data which will be provided includes all quantitative financial information and operating data of the general type included in APPENDIX A (Financial Statements of the District and certain supplemental schedules). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2020. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements if 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 shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six-month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Specified Event Notices

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, 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 within the meaning of the Rule, 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 the financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. The terms “material” and “financial obligation” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operational data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from 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 its Electronic Municipal Market Access (“EMMA”) 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 holders or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance With Prior Undertakings

The District failed to timely file its annual filing for the fiscal year ended September 30, 2018 due to an administrative oversight. The annual financial information was filed on April 2, 2019. The District has instituted procedures to ensure timely filing of all future annual financial and operating data information. Except as indicated above, during the last five years, the District has complied in all material respects with its continuing disclosure agreements made 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.

This OFFICIAL STATEMENT was approved by the Board of Directors of Chelford City Municipal Utility District, as of the date shown on the cover page.

/s/ _____
President, Board of Directors

ATTEST:

/s/ _____
Secretary, Board of Directors

APPENDIX A
Financial Statements of the District for the year ended September 30, 2019

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
HARRIS AND FORT BEND COUNTIES, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2019

CHELFORD CITY MUNICIPAL UTILITY DISTRICT

HARRIS AND FORT BEND COUNTIES, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chelford City Municipal Utility District
Harris and Fort Bend Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Chelford City Municipal Utility District (the "District"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 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 the Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and each Special Revenue Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 6, 2020

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Management's discussion and analysis of Chelford City Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has four governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Special Revenue Funds account for the operations of the Mission Bend Integrated Water System and the Joint Wastewater Treatment Facilities. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). Budgetary comparison schedules are included as RSI for the General Fund and each Special Revenue Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$22,766,676 as of September 30, 2019. A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 10,171,058	\$ 9,189,225	\$ 981,833
Capital Assets (Net of Accumulated Depreciation)	25,194,498	25,429,268	(234,770)
Total Assets	\$ 35,365,556	\$ 34,618,493	\$ 747,063
Bonds Payable	\$ 7,165,060	\$ 7,490,689	\$ 325,629
Other Liabilities	5,433,820	4,776,177	(657,643)
Total Liabilities	\$ 12,598,880	\$ 12,266,866	\$ (332,014)
Net Investment in Capital Assets	\$ 18,035,160	\$ 18,181,393	\$ (146,233)
Restricted	340,012	325,567	14,445
Unrestricted	4,391,504	3,844,667	546,837
Total Net Position	\$ 22,766,676	\$ 22,351,627	\$ 415,049

The following table provides a summary of the District's operations for the years ended September 30, 2019, and September 30, 2018.

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,256,542	\$ 1,227,284	\$ 29,258
Charges for Services	6,585,245	6,882,778	(297,533)
Other Revenues	309,499	245,303	64,196
Total Revenues	\$ 8,151,286	\$ 8,355,365	\$ (204,079)
Expenses for Services	7,736,237	7,775,020	38,783
Change in Net Position	\$ 415,049	\$ 580,345	\$ (165,296)
Net Position, Beginning of Year	22,351,627	21,771,282	580,345
Net Position, End of Year	\$ 22,766,676	\$ 22,351,627	\$ 415,049

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2019, were \$4,696,111, an increase of \$313,634 from the prior year.

The General Fund fund balance increased by \$542,991, primarily due to property tax revenues, service revenues and investment revenues exceeding operating expenditures.

The Special Revenue Funds bill operational costs to the participants and are revenue neutral.

The Debt Service Fund fund balance increased by \$7,735, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$237,092, primarily due to the use of bond proceeds received in a prior fiscal year.

BUDGETARY HIGHLIGHTS

The Board of Directors adopted unappropriated budgets for the General Fund and each Special Revenue Fund for the current fiscal year. For the General Fund, actual revenues were \$110,946 more than budgeted revenues primarily due to higher than anticipated service revenues and investment revenues. Actual expenditures were \$190,297 less than budgeted expenditures primarily due to lower than anticipated purchased services, professional fees and maintenance and repair costs. The Special Revenue Fund budgets are also presented as RSI in this report.

CAPITAL ASSETS

Capital assets as of September 30, 2019, total \$25,194,498. Significant capital asset activity during the current fiscal year included rehabilitation of District facilities. Current year capital asset additions included rehabilitation of District facilities.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 197,847	\$ 197,847	\$
Construction in Progress	703,551	134,289	569,262
Capital Assets, Net of Accumulated Depreciation:			
Water System	1,314,039	1,158,165	155,874
Wastewater System	6,856,050	7,102,433	(246,383)
Drainage System	578,541	618,961	(40,420)
Joint Wastewater Treatment Facilities	15,418,560	16,081,708	(663,148)
Capacity Interest in Elevated Storage Tank	125,910	135,865	(9,955)
Total Net Capital Assets	\$ 25,194,498	\$ 25,429,268	\$ (234,770)

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

LONG-TERM DEBT ACTIVITY

At year-end, the District had total bond debt payable of \$7,240,000. The changes in the debt position of the District during the fiscal year ended September 30, 2019, are summarized as follows:

Bond Debt Payable, October 1, 2018	\$ 7,575,000
Less: Bond Principal Paid	<u>335,000</u>
Bond Debt Payable, September 30, 2019	<u><u>\$ 7,240,000</u></u>

The District's underlying credit rating is "A" by Standard & Poor's. The Series 2009 and Series 2012 Bonds carry insured ratings of "AA" by virtue of bond insurance issued by Assured Guaranty Corporation and Assured Guaranty Municipal, respectively. The Series 2016 Bonds insured rating has been withdrawn. The above ratings reflect any changes through fiscal year end.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Chelford City Municipal Utility District, c/o Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, TX 77046.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2019

	General Fund	Special Revenue Funds	
		Mission Bend Integrated Water System	Regional Wastewater Treatment Plant
ASSETS			
Cash	\$ 56,571	\$ 106,436	\$ 1,064,215
Investments	3,687,270	203,134	3,590,844
Receivables:			
Property Taxes	21,344		
Penalty and Interest on Delinquent Taxes			
Service Accounts	161,603		
Other	36,908		16,412
Due from Other Funds	99,032	67,664	
Prepaid Costs	10,000		
Due from Participants		410,644	340,044
Mission Bend Integrated Water System Advance	120,701		
Joint Wastewater Treatment Facilities Advance	672,306		
Land			
Construction in Progress			
Capital Assets (Net of Accumulated Depreciation)			
TOTAL ASSETS	<u>\$ 4,865,735</u>	<u>\$ 787,878</u>	<u>\$ 5,011,515</u>

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 35,462	\$ 15,702	\$ 1,278,386	\$	\$ 1,278,386
286,694	88,072	7,856,014		7,856,014
23,692		45,036		45,036
			16,011	16,011
		161,603		161,603
		53,320		53,320
4,920	1,800	173,416	(173,416)	
		10,000		10,000
		750,688		750,688
		120,701	(120,701)	
		672,306	(672,306)	
			197,847	197,847
			703,551	703,551
			24,293,100	24,293,100
<u>\$ 350,768</u>	<u>\$ 105,574</u>	<u>\$ 11,121,470</u>	<u>\$ 24,244,086</u>	<u>\$ 35,365,556</u>

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

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2019

		Special Revenue Funds	
	General Fund	Mission Bend Integrated Water System	Regional Wastewater Treatment Plant
LIABILITIES			
Accounts Payable	\$ 130,033	\$ 263,091	\$ 280,306
Accrued Interest Payable			
Construction Deposits	198,046		
Due to Other Funds	74,384		
Security Deposits	71,768		
Participant Reserves:			
Integrated Water System		524,787	
Joint Wastewater Treatment Facilities			4,731,209
Long-Term Liabilities:			
Bonds Payable, Due Within One Year			
Bonds Payable, Due After One Year			
TOTAL LIABILITIES	\$ 474,231	\$ 787,878	\$ 5,011,515
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	\$ 21,344	\$ - 0 -	\$ - 0 -
FUND BALANCES			
Nonspendable:			
Prepaid Costs	\$ 10,000	\$	\$
For Mission Bend Integrated Water System	120,701		
For Joint Wastewater Treatment Facilities	672,306		
Restricted for Authorized Construction			
Restricted for Debt Service			
Unassigned	3,567,153		
TOTAL FUND BALANCES	\$ 4,370,160	\$ - 0 -	\$ - 0 -
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,865,735	\$ 787,878	\$ 5,011,515
NET POSITION			
Net Investment in Capital Assets			
Restricted for Debt Service			
Unrestricted			
TOTAL NET POSITION			

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 6,847	\$ 820	\$ 681,097	\$	\$ 681,097
			19,920	19,920
		198,046		198,046
	99,032	173,416	(173,416)	
		71,768		71,768
		524,787	(120,701)	404,086
		4,731,209	(672,306)	4,058,903
			355,000	355,000
			<u>6,810,060</u>	<u>6,810,060</u>
<u>\$ 6,847</u>	<u>\$ 99,852</u>	<u>\$ 6,380,323</u>	<u>\$ 6,218,557</u>	<u>\$ 12,598,880</u>
<u>\$ 23,692</u>	<u>\$ - 0 -</u>	<u>\$ 45,036</u>	<u>\$ (45,036)</u>	<u>\$ - 0 -</u>
\$	\$	\$ 10,000	\$ (10,000)	\$
		120,701	(120,701)	
		672,306	(672,306)	
	5,722	5,722	(5,722)	
320,229		320,229	(320,229)	
		<u>3,567,153</u>	<u>(3,567,153)</u>	
<u>\$ 320,229</u>	<u>\$ 5,722</u>	<u>\$ 4,696,111</u>	<u>\$ (4,696,111)</u>	<u>\$ - 0 -</u>
<u>\$ 350,768</u>	<u>\$ 105,574</u>	<u>\$ 11,121,470</u>		
			\$ 18,035,160	\$ 18,035,160
			340,012	340,012
			<u>4,391,504</u>	<u>4,391,504</u>
			<u>\$ 22,766,676</u>	<u>\$ 22,766,676</u>

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

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

Total Fund Balances - Governmental Funds	\$	4,696,111
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		25,194,498
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.		61,047
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (19,920)	
Bonds Payable	<u>(7,165,060)</u>	<u>(7,184,980)</u>
Total Net Position - Governmental Activities		<u>\$ 22,766,676</u>

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

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CHELFORD CITY MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Special Revenue Funds	
		Mission Bend Integrated Water System	Regional Wastewater Treatment Plant
REVENUES			
Property Taxes	\$ 624,489	\$	\$
Water Service	528,364	3,196,623	
Wastewater Service	554,435		2,603,985
Water Authority Fees	720,752		
Penalty and Interest	42,491		
Tap Connection and Inspection Fees	35,697		
Sales Tax Revenues	17,790		
Investment and Miscellaneous Revenues	189,188	3,445	83,082
TOTAL REVENUES	\$ 2,713,206	\$ 3,200,068	\$ 2,687,067
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 141,243	\$ 22,602	\$ 132,761
Contracted Services	98,251	10,550	340,514
Purchased Water Service	772,339		
Purchased Wastewater Service	345,215		
Utilities		319,527	416,548
Water Authority Assessments		2,825,874	
Repairs and Maintenance	422,223		290,356
Depreciation			
Other	390,944	21,515	761,636
Capital Outlay			745,252
Debt Service:			
Bond Principal			
Bond Interest			
TOTAL EXPENDITURES/EXPENSES	\$ 2,170,215	\$ 3,200,068	\$ 2,687,067
NET CHANGE IN FUND BALANCES	\$ 542,991	\$ - 0 -	\$ - 0 -
CHANGE IN NET POSITION			
FUND BALANCES/NET POSITION - OCTOBER 1, 2018	3,827,169		
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2019	\$ 4,370,160	\$ - 0 -	\$ - 0 -

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
\$ 624,977	\$	\$ 1,249,466	\$ 7,076	\$ 1,256,542
		3,724,987	(772,339)	2,952,648
		3,158,420	(345,215)	2,813,205
		720,752		720,752
17,955		60,446	2,497	62,943
		35,697		35,697
		17,790		17,790
<u>13,035</u>	<u>2,959</u>	<u>291,709</u>		<u>291,709</u>
\$ 655,967	\$ 2,959	\$ 9,259,267	\$ (1,107,981)	\$ 8,151,286
\$ 7,623	\$ 9,987	\$ 314,216	\$	\$ 314,216
46,780		496,095		496,095
		772,339	(772,339)	
		345,215	(345,215)	
		736,075		736,075
		2,825,874		2,825,874
		712,579		712,579
			1,210,016	1,210,016
7,992	70	1,182,157		1,182,157
	229,994	975,246	(975,246)	
335,000		335,000	(335,000)	
<u>250,837</u>		<u>250,837</u>	<u>8,388</u>	<u>259,225</u>
\$ 648,232	\$ 240,051	\$ 8,945,633	\$ (1,209,396)	\$ 7,736,237
\$ 7,735	\$ (237,092)	\$ 313,634	\$ (313,634)	\$
			415,049	415,049
312,494	242,814	4,382,477	17,969,150	22,351,627
<u>320,229</u>	<u>5,722</u>	<u>4,696,111</u>	<u>18,070,565</u>	<u>22,766,676</u>

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

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Net Change in Fund Balances - Governmental Funds	\$	313,634
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		7,076
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		2,497
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(1,210,016)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		975,246
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		335,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(8,388)
Change in Net Position - Governmental Activities	\$	<u>415,049</u>

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

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1. CREATION OF DISTRICT

Chelford City Municipal Utility District (the “District”) of Harris and Fort Bend Counties, Texas, was created effective January 23, 1973, by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality. 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, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on March 3, 1975, and the first bonds were sold on August 10, 1977.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Governmental Funds

The District has four governmental funds and considers each to be a major fund.

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

Special Revenue Funds - To account for financial resources collected and administered by the District for the operation of the joint wastewater treatment facilities and the Mission Bend Integrated Water System.

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

Capital Projects Fund – To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

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

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

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

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

As of the fiscal year-end, the General Fund recorded an interfund liability of \$4,920 to the Debt Service Fund for the over transfer of maintenance tax revenues and the General Fund recorded a payable of \$67,664 to the Mission Bend Integrated Water System Special Revenue Fund for operating costs. The General Fund also recorded an interfund liability of \$1,800 to the Capital Projects Fund for legal fees. The Capital Projects Fund recorded a payable of \$99,032 to the General Fund for engineering related to the water plant no. 1 rehabilitation project and the water plant generator.

Capital Assets

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

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

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

	Years
Water System	10-45
Wastewater System	10-45
Drainage System	10-45

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts unappropriated budgets for the General Fund, joint wastewater treatment plant and the Mission Bend Integrated Water System. The budgets were not amended during the current fiscal year.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that the directors are considered to be employees for federal payroll tax purposes only.

Measurement Focus

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

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2019:

	October 1, 2018	Additions	Retirements	September 30, 2019
Bonds Payable	\$ 7,575,000	\$	\$ 335,000	\$ 7,240,000
Unamortized Discounts	(84,311)		(9,371)	(74,940)
Bonds Payable, Net	\$ 7,490,689	\$ -0-	\$ 325,629	\$ 7,165,060
			Amount Due Within One Year	\$ 355,000
			Amount Due After One Year	6,810,060
			Bonds Payable, Net	\$ 7,165,060

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 3. LONG-TERM DEBT (Continued)

	<u>Series 2009</u>	<u>Series 2012</u>	<u>Series 2016</u>
Amount Outstanding – September 30, 2019	\$ 2,740,000	\$ 1,075,000	\$ 3,425,000
Interest Rates	3.625% - 4.125%	2.25% - 3.75%	2.25% - 3.00%
Maturity Dates – Serially Beginning/Ending	September 1, 2020/2026	September 1, 2020/2029	September 1, 2027/2036
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	September 1, 2018**	September 1, 2020**	September 1, 2023**

** Or any date thereafter, in whole, or from time to time in part, in integral multiples of \$5,000, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. The Series 2009 Term Bonds maturing September 1, 2020, September 1, 2022, September 1, 2024, and September 1, 2026, are subject to mandatory redemption on September 1, 2019, September 1, 2021, September 1, 2023, and September 1, 2025, respectively. The Series 2012 Term Bonds maturing September 1, 2026, are subject to mandatory redemption on September 1, 2020. The Series 2016 term bonds maturing September 1, 2029 and 2036, are subject to mandatory redemption on September 1, 2027 and 2035.

As of September 30, 2019, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 355,000	\$ 239,038	\$ 594,038
2021	375,000	226,263	601,263
2022	395,000	211,449	606,449
2023	415,000	195,837	610,837
2024	435,000	179,425	614,425
2025-2029	2,290,000	635,125	2,925,125
2030-2034	2,125,000	297,500	2,422,500
2035-2036	850,000	38,250	888,250
	<u>\$ 7,240,000</u>	<u>\$ 2,022,887</u>	<u>\$ 9,262,887</u>

As of September 30, 2019, the District had authorized but unissued bonds in the amount of \$11,625,000 for utility facilities.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 3. LONG-TERM DEBT (Continued)

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

During the year ended September 30, 2019, the District levied an ad valorem debt service tax rate of \$0.185 per \$100 of assessed valuation, which resulted in a tax levy of \$630,351 on the adjusted taxable valuation of \$340,937,501 for the 2018 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

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

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the Bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of the bond issues.

The District is required to provide to certain information repositories continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits was \$1,278,386 and the bank balance was \$1,602,617. The District was not exposed to custodial credit risk at year-end. The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2019, as listed below:

	Cash
GENERAL FUND	\$ 56,571
SPECIAL REVENUE FUNDS	1,170,651
DEBT SERVICE FUND	35,462
CAPITAL PROJECTS FUND	15,702
TOTAL DEPOSITS	\$ 1,278,386

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool. As of September 30, 2019, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 3,687,270	\$ 3,687,270
<u>SPECIAL REVENUE FUND</u>		
TexPool	3,793,978	3,793,978
<u>DEBT SERVICE FUND</u>		
TexPool	286,694	286,694
<u>CAPITAL PROJECTS FUND</u>		
TexPool	88,072	88,072
TOTAL INVESTMENTS	\$ 7,856,014	\$ 7,856,014

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2019, the District's investment in TexPool was rated AAAM by Standard and Poor's. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District.

Restrictions

All cash and investments of the Special Revenue Funds are restricted for the payment of operations for the Joint Wastewater Treatment Facilities and the Mission Bend Integrated Water System. All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019 is as follows:

	October 1, 2018	Increases	Decreases	September 30, 2019
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 197,847	\$	\$	\$ 197,847
Construction in Progress	134,289	975,246	405,984	703,551
Total Capital Assets Not Being Depreciated	\$ 332,136	\$ 975,246	\$ 405,984	\$ 901,398
Capital Assets Subject to Depreciation				
Water System	\$ 3,677,785	\$ 259,871	\$	\$ 3,937,656
Wastewater System	11,087,213			11,087,213
Drainage System	1,835,259			1,835,259
Joint Wastewater Treatment Facilities	32,931,022	146,113		33,077,135
Capacity Interest in Elevated Storage Tank	398,212			398,212
Total Capital Assets Subject to Depreciation	\$ 49,929,491	\$ 405,984	\$ - 0 -	\$ 50,335,475
Less Accumulated Depreciation				
Water System	\$ 2,519,620	\$ 103,997	\$	\$ 2,623,617
Wastewater System	3,984,780	246,383		4,231,163
Drainage System	1,216,298	40,420		1,256,718
Joint Wastewater Treatment Facilities	16,849,314	809,261		17,658,575
Capacity Interest in Elevated Storage Tank	262,347	9,955		272,302
Total Accumulated Depreciation	\$ 24,832,359	\$ 1,210,016	\$ - 0 -	\$ 26,042,375
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 25,097,132	\$ (804,032)	\$ - 0 -	\$ 24,293,100
Total Capital Assets, Net of Accumulated Depreciation	\$ 25,429,268	\$ 171,214	\$ 405,984	\$ 25,194,498

NOTE 7. MAINTENANCE TAX

On September 14, 2002, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.50 per \$100 of assessed valuation of taxable property within the District. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any tax bonds which may be issued in the future. During the year ended September 30, 2019, the District levied an ad valorem maintenance tax rate of \$0.185 per \$100 of assessed valuation, which resulted in a tax levy of \$630,351 on the adjusted taxable valuation of \$340,937,501 for the 2018 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 8. INTEGRATED WATER SYSTEM

On May 14, 1981, the District, Chelford One Municipal Utility District, Mission Bend Municipal Utility District No. 1 and Mission Bend Municipal Utility District No. 2 executed a water supply and billing agreement. Effective June 1, 2012, the districts executed the Amended and Restated Water Supply and Billing Agreement forming the Mission Bend Integrated Water System (“Integrated Water System”). Effective April 1, 2019, the districts executed the Second Amended and Restated Water Supply and Billing Agreement. The District is the coordinating district in regard to the billing and collection of chemicals, telephone, electricity and ground water reduction plan fees. These fees are prorated to each district based on water billed in each district. Each district has deposited an operating reserve equal to two months of electricity, telephone, and chemical bills and two months of water authority fees. The reserve is adjusted each calendar year and is based on the highest billing paid in the previous year, including gallons used multiplied by the anticipated Water Authority rates for the next year. The term of this agreement is 40 years. The District has contributed a reserve of \$120,701 and recorded current year expenditures of \$772,339.

NOTE 9. AGREEMENT FOR CONSTRUCTION, FINANCING AND OPERATION OF AN ELEVATED WATER STORAGE FACILITY

On May 30, 1986, the District executed an agreement with Chelford One Municipal Utility District, Mission Bend Municipal Utility District No. 1 and Mission Bend Municipal Utility District No. 2 (District No. 2) to construct, finance and operate a 2,000,000-gallon elevated storage facility. This agreement was amended on November 15, 2016, to clarify the manner in which costs associated with the ongoing operation of the elevated water storage facility will be incurred, billed and otherwise administered amongst the districts. District No. 2 holds all legal right, title, and interest to the facilities. The term of the agreement is 40 years, unless terminated by mutual agreement of all parties. District No. 2 operates, maintains, and insures the facility on behalf of the districts and pays all costs of operating, maintaining, repairing, reconstructing, replacing and insuring the facility. District No. 2 invoices each district for its share of the costs of operation and maintenance. Each district has equitable ownership rights in the facility as follows:

Participant	Percent
Chelford City Municipal Utility District	15.14%
Chelford One Municipal Utility District	12.62
Mission Bend Municipal Utility District No. 1	22.16
Mission Bend Municipal Utility District No. 2	<u>50.08</u>
TOTALS	<u>100.00%</u>

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 10. FINANCING AND OPERATION OF REGIONAL FACILITIES

The District entered into various contracts whereby the District agreed to provide or cause to be provided the regional wastewater treatment and disposal facilities necessary to serve the participating districts. The term of each contract is 40 years. The agreements are dated as shown:

<u>Participants</u>	<u>Date of Agreement</u>
Chelford One Municipal Utility District	May 9, 1978
City of Houston (formerly Harris County Municipal Utility District No. 98)	May 9, 1978
Harris County Municipal Utility District No. 120	May 9, 1978
Harris County Municipal Utility District No. 147	May 9, 1978
Mission Bend Municipal Utility District No. 1	May 9, 1978
Mission Bend Municipal Utility District No. 2	June 19, 1979
City of Houston (formerly West Houston Municipal Utility District)	August 12, 1981
Alief Church of the Nazarene (formerly United Savings of Texas)	May 9, 1978

On January 26, 1982, the District entered into a supplemental agreement with the participants to share the cost of expanding the treatment facilities to 15,500,000 gallons-per-day capacity. The Plant's capacity was subsequently reduced to 11,000,000 gallons-per-day due to permit downgrading.

Effective January 1, 2005, Harris County Municipal Utility District No. 120 (District No. 120) sold the District 118,050 gpd of its excess capacity at a cost of \$548,933 plus interest.

On September 11, 2006, the contract was amended to clarify the pro rata share of each participant and extend the term of the contract. The term of this contract is for a period of 40 years and shall automatically be extended for successive 40-year periods until all of the participants have been annexed and dissolved by the City of Houston, Texas. The City of Houston and Alief Church are not a party to the September 11, 2006, contract.

On March 12, 2019, the District and the City of Houston (formerly Harris County Municipal Utility District No. 98) executed an amendment to the contract which extends the effective date of the contract through August 12, 2021.

Each participant's capacity and percent of ownership are as follows:

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 10. FINANCING AND OPERATION OF REGIONAL FACILITIES
(Continued)

Participants	Gallons-Per- Day Capacity	Percent
Chelford City Municipal Utility District	864,423	7.86%
Chelford One Municipal Utility District	532,258	4.85
City of Houston (formerly Harris County Municipal Utility District No. 98)	1,087,112	9.88
Harris County Municipal Utility District No. 120	3,010,952	27.37
Harris County Municipal Utility District No. 147	489,734	4.45
Mission Bend Municipal Utility District No. 1	1,041,895	9.47
Mission Bend Municipal Utility District No. 2	2,492,643	22.66
City of Houston (formerly West Houston Municipal Utility District)	1,473,177	13.39
Alief Church of the Nazarene	<u>7,806</u>	<u>0.07</u>
	<u>11,000,000</u>	<u>100.00%</u>

Audited financial reports are issued on the Regional Wastewater Treatment Plant. Reports can be obtained by contacting the District's attorney, Coats Rose, P.C.

Participants are billed monthly, based on \$1.50 per 1,000 gallons-per-day capacity acquired in the Plant, plus a pro rata share of budgeted costs in excess of this amount based on the number of equivalent connections. During the current fiscal year, the monthly per connection charge was \$13.50. As of September 30, of each year, any excess of revenues or expenditures are allocated to each participant based upon their pro rata share of total annual billings for the fiscal year then ended. The allocation is added to or deducted from each participant's fund balance. The District's advance for future operations, maintenance and capital improvements to the Plant totaled \$672,306, and the District recorded current year expenditures of \$345,215 as its share of operating costs of the plant.

NOTE 11. RISK MANAGEMENT

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

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 12. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY

The District's water well is located within the boundaries of the West Harris County Regional Water Authority (the "Authority"). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the "Act"), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Authority for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Authority is overseeing that its participants comply with subsidence district pumpage requirements. The Authority charges a fee, based on the amount of water pumped from a well, to the owners of wells located within the boundaries of the Authority, unless exempted. The fee charged as of the fiscal year end is \$2.95 per 1,000 gallons of water pumped from each well.

NOTE 13. STRATEGIC PARTNERSHIP AGREEMENT

Effective April 11, 2003, the District entered into a Strategic Partnership Agreement ("SPA") with the City of Houston, Texas which was amended January 29, 2007, and April 3, 2007. Land added in the April 3, 2007, amendment is included for fireworks regulations only. Under the agreement, and in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City has annexed a tract of land within the District for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the tract. The District will continue to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District. The taxable property within the District is not liable for any present or future debts of the City, and current and future taxes levied by the City may not be levied on taxable property within the District. The City's municipal courts have jurisdiction to adjudicate criminal cases filed under the Planning, Zoning, Health and Safety Ordinances and certain state laws. The District's assets, liabilities, indebtedness, and obligations will remain the responsibilities of the District during the period preceding full-purpose annexation. The City may not annex the District for full purposes during the term of this agreement. The City imposes a Sale and Use Tax within the boundaries of the District on the land included under the SPA on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under the futures amendments to Chapter 321 of the Tax Code. The City agreed to pay to the District an amount equal to one-half of all Sales and Use Tax revenues generated within the District within 30 days of the City receiving the funds from the State Comptroller's office. The term of the SPA is 30 years from the effective date of April 11, 2003. During the current fiscal year, the District recorded sales tax revenues of \$17,790.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 14. LETTER AGREEMENT

On February 20, 2019, the District entered into the Letter Agreement Regarding Drainage Facilities with Mission Bend Municipal Utility District No. 2. The property outside of the eastern fence line of the regional wastewater treatment plant is within the boundaries of District No. 2 and is experiencing continued drainage problems. District No. 2 has agreed to fund the repairs and the District has agreed to administer, design and construct the repairs (the "Project"). Upon completion, the District will own, operate and maintain the Project and costs associated therewith will be treated as a Plant expense. During the prior fiscal year, District No. 2 contributed \$210,000 towards the Project, of which \$3,409 was expensed. During the current fiscal year, \$142,704 was expensed and the project was completed. The District reimbursed District No. 2 \$63,887 for the unspent funds they contributed for the project.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2019

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 620,000	\$ 624,489	\$ 4,489
Water Service	559,000	528,364	(30,636)
Wastewater Service	540,000	554,435	14,435
Water Authority Fees	648,000	720,752	72,752
Penalty and Interest	42,000	42,491	491
Tap Connection and Inspection Fees	8,100	35,697	27,597
Sales Tax Revenues	20,400	17,790	(2,610)
Investment and Miscellaneous Revenues	164,760	189,188	24,428
TOTAL REVENUES	<u>\$ 2,602,260</u>	<u>\$ 2,713,206</u>	<u>\$ 110,946</u>
EXPENDITURES			
Professional Fees	\$ 166,840	\$ 141,243	\$ 25,597
Contracted Services	100,165	98,251	1,914
Purchased Water Service	669,726	772,339	(102,613)
Purchased Wastewater Service	481,634	345,215	136,419
Repairs and Maintenance	612,100	422,223	189,877
Other	330,047	390,944	(60,897)
TOTAL EXPENDITURES	<u>\$ 2,360,512</u>	<u>\$ 2,170,215</u>	<u>\$ 190,297</u>
NET CHANGE IN FUND BALANCE	\$ 241,748	\$ 542,991	\$ 301,243
FUND BALANCE - OCTOBER 1, 2018	<u>3,827,169</u>	<u>3,827,169</u>	
FUND BALANCE - SEPTEMBER 30, 2019	<u>\$ 4,068,917</u>	<u>\$ 4,370,160</u>	<u>\$ 301,243</u>

See accompanying independent auditor's report.

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SPECIAL
REVENUE FUND - JOINT WASTEWATER TREATMENT FACILITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Revenues from Participants	\$ 4,582,594	\$ 2,603,985	\$ (1,978,609)
Investment and Miscellaneous Revenues	<u>36,000</u>	<u>83,082</u>	<u>47,082</u>
TOTAL REVENUES	<u>\$ 4,618,594</u>	<u>\$ 2,687,067</u>	<u>\$ (1,931,527)</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 169,700	\$ 132,761	\$ 36,939
Contracted Services	315,670	340,514	(24,844)
Utilities	487,800	416,548	71,252
Repairs and Maintenance	397,000	290,356	106,644
Other	778,424	761,636	16,788
Capital Outlay	<u>2,470,000</u>	<u>745,252</u>	<u>1,724,748</u>
TOTAL EXPENDITURES	<u>\$ 4,618,594</u>	<u>\$ 2,687,067</u>	<u>\$ 1,931,527</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ -0-	\$ -0-
FUND BALANCE - OCTOBER 1, 2018	_____	_____	_____
FUND BALANCE - SEPTEMBER 30, 2019	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>

See accompanying independent auditor's report.

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
SPECIAL REVENUE FUND - INTEGRATED WATER SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Revenues from Participants	\$ 3,283,542	\$ 3,196,623	\$ (86,919)
Investment and Miscellaneous Revenues		3,445	3,445
TOTAL REVENUES	\$ 3,283,542	\$ 3,200,068	\$ (83,474)
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 17,800	\$ 22,602	\$ (4,802)
Contracted Services	9,600	10,550	(950)
Utilities	344,964	319,527	25,437
Water Authority Assessments	2,880,678	2,825,874	54,804
Other	30,500	21,515	8,985
TOTAL EXPENDITURES	\$ 3,283,542	\$ 3,200,068	\$ 83,474
NET CHANGE IN FUND BALANCE	\$ -0-	\$ -0-	\$ -0-
FUND BALANCE - OCTOBER 1, 2018	_____	_____	_____
FUND BALANCE - SEPTEMBER 30, 2019	\$ -0-	\$ -0-	\$ -0-

See accompanying independent auditor's report.

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CHELFORD CITY MUNICIPAL UTILITY DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
SEPTEMBER 30, 2019

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved December 3, 2018.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 14.50	8,000	N	\$ 1.25 \$ 2.50	8,001 to 25,000 25,001 and up
WASTEWATER:	\$ 15.50		Y		
SURCHARGE:					
Regional Water Authority Fees	\$3.25 per 1,000 gallons of metered water usage				
Regulatory Assessment Fee	0.5% of actual water and sewer bill				

District employs winter averaging for wastewater usage?

Yes	<u> X </u> No
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Total monthly charges per 10,000 gallons usage: Water: \$17.00 Wastewater: \$15.50 Surcharge: \$32.66

See accompanying independent auditor's report.

**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	2,824	2,784	x 1.0	2,784
1"	17	17	x 2.5	43
1½"	11	11	x 5.0	55
2"	10	10	x 8.0	80
3"			x 15.0	
4"			x 25.0	
6"	1	1	x 50.0	50
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>2,863</u>	<u>2,823</u>		<u>3,012</u>
Total Wastewater Connections	<u>2,830</u>	<u>2,794</u>	x 1.0	<u>2,794</u>

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

Gallons billed to customers: 227,081,000 Water Accountability Ratio: *

* The District is on an integrated water system with 3 other districts (see Note 8).

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

Counties in which District is located:

Harris County and Fort Bend County

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

PROFESSIONAL FEES:	
Auditing	\$ 14,750
Engineering	53,827
Legal	<u>72,666</u>
TOTAL PROFESSIONAL FEES	<u>\$ 141,243</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 772,339
Purchased Wastewater Service	<u>345,215</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 1,117,554</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 22,725
Operations and Billing	<u>75,526</u>
TOTAL CONTRACTED SERVICES	<u>\$ 98,251</u>
REPAIRS AND MAINTENANCE	<u>\$ 422,223</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes and Administration	\$ 26,612
Educational Seminars	16,564
Insurance	7,750
Legal Notices	6,331
Office Supplies and Postage	93,897
Other	<u>13,972</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 165,126</u>
TAP CONNECTIONS	<u>\$ 64,101</u>
PARKS AND RECREATION	<u>\$ 40,000</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 20,955
Permit Fees	16,402
Reconnection Fees	29,861
Inspection Fees	21,293
Regulatory Assessment	5,506
Storm Water Management Plan	<u>27,700</u>
TOTAL OTHER EXPENDITURES	<u>\$ 121,717</u>
TOTAL EXPENDITURES	<u><u>\$ 2,170,215</u></u>

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
INVESTMENTS
SEPTEMBER 30, 2019

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 1,312,849	\$
TexPool	XXXX0005	Varies	Daily	<u>2,374,421</u>	<u> </u>
TOTAL GENERAL FUND				<u>\$ 3,687,270</u>	<u>\$ - 0 -</u>
<u>SPECIAL REVENUE FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 3,590,844	\$
TexPool	XXXX0006	Varies	Daily	<u>203,134</u>	<u> </u>
TOTAL SPECIAL REVENUE FUND				<u>\$ 3,793,978</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0002	Varies	Daily	<u>\$ 286,694</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0004	Varies	Daily	<u>\$ 88,072</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u><u>\$ 7,856,014</u></u>	<u><u>\$ - 0 -</u></u>

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
OCTOBER 1, 2018	\$	17,498	\$	20,462
Adjustments to Beginning				
Balance		<u>(2,016)</u>	\$	<u>(2,144)</u>
		\$	15,482	\$
				18,318
Original 2018 Tax Levy	\$	613,064	\$	613,064
Adjustment to 2018 Tax Levy		<u>17,287</u>	<u>630,351</u>	<u>17,287</u>
				<u>630,351</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	645,833	\$
				648,669
TAX COLLECTIONS:				
Prior Years	\$	4,842	\$	5,330
Current Year		<u>619,647</u>	<u>624,489</u>	<u>619,647</u>
				<u>624,977</u>
TAXES RECEIVABLE -				
SEPTEMBER 30, 2019		<u>\$</u>	<u>21,344</u>	<u>\$</u>
				<u>23,692</u>
TAXES RECEIVABLE BY				
YEAR:				
2018	\$	10,704	\$	10,704
2017		5,503		5,793
2016		2,779		3,230
2015		1,094		1,353
2014		729		860
2013 and Prior		<u>535</u>		<u>1,752</u>
TOTAL	\$	<u>21,344</u>	\$	<u>23,692</u>

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	2018	2017	2016	2015
PROPERTY VALUATIONS:				
Land	\$ 72,333,403	\$ 72,490,935	\$ 73,458,801	\$ 70,320,592
Improvements	340,708,194	315,519,121	282,980,161	248,497,487
Personal Property	5,253,601	5,156,144	5,060,378	5,243,667
Exemptions	<u>(77,357,697)</u>	<u>(78,151,521)</u>	<u>(72,669,403)</u>	<u>(62,877,009)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 340,937,501</u>	<u>\$ 315,014,679</u>	<u>\$ 288,829,937</u>	<u>\$ 261,184,737</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.185	\$ 0.200	\$ 0.215	\$ 0.235
Maintenance	<u>0.185</u>	<u>0.190</u>	<u>0.185</u>	<u>0.190</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.370</u>	<u>\$ 0.390</u>	<u>\$ 0.400</u>	<u>\$ 0.425</u>
ADJUSTED TAX LEVY*	<u>\$ 1,260,702</u>	<u>\$ 1,228,183</u>	<u>\$ 1,155,320</u>	<u>\$ 1,110,035</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>98.30 %</u>	<u>99.08 %</u>	<u>99.48 %</u>	<u>99.78 %</u>

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

Maintenance Tax – Maximum tax rate of \$0.50 per \$100 of assessed valuation approved by voters on September 14, 2002.

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2019

S E R I E S - 2 0 0 9

Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2020	\$ 330,000	\$ 109,475	\$ 439,475
2021	350,000	97,512	447,512
2022	370,000	83,512	453,512
2023	390,000	68,712	458,712
2024	410,000	53,112	463,112
2025	430,000	36,712	466,712
2026	460,000	18,977	478,977
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
	<u>\$ 2,740,000</u>	<u>\$ 468,012</u>	<u>\$ 3,208,012</u>

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2019

S E R I E S - 2 0 1 2

Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2020	\$ 25,000	\$ 38,688	\$ 63,688
2021	25,000	37,876	62,876
2022	25,000	37,062	62,062
2023	25,000	36,250	61,250
2024	25,000	35,438	60,438
2025	25,000	34,624	59,624
2026	25,000	33,812	58,812
2027	300,000	33,000	333,000
2028	300,000	22,500	322,500
2029	300,000	11,250	311,250
2030			
2031			
2032			
2033			
2034			
2035			
2036			
	<u>\$ 1,075,000</u>	<u>\$ 320,500</u>	<u>\$ 1,395,500</u>

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2019

S E R I E S - 2 0 1 6

Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2020	\$	\$ 90,875	\$ 90,875
2021		90,875	90,875
2022		90,875	90,875
2023		90,875	90,875
2024		90,875	90,875
2025		90,875	90,875
2026		90,875	90,875
2027	150,000	90,875	240,875
2028	150,000	87,500	237,500
2029	150,000	84,125	234,125
2030	425,000	80,750	505,750
2031	425,000	70,656	495,656
2032	425,000	60,031	485,031
2033	425,000	48,875	473,875
2034	425,000	37,188	462,188
2035	425,000	25,500	450,500
2036	425,000	12,750	437,750
	<u>\$ 3,425,000</u>	<u>\$ 1,234,375</u>	<u>\$ 4,659,375</u>

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2019

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 355,000	\$ 239,038	\$ 594,038
2021	375,000	226,263	601,263
2022	395,000	211,449	606,449
2023	415,000	195,837	610,837
2024	435,000	179,425	614,425
2025	455,000	162,211	617,211
2026	485,000	143,664	628,664
2027	450,000	123,875	573,875
2028	450,000	110,000	560,000
2029	450,000	95,375	545,375
2030	425,000	80,750	505,750
2031	425,000	70,656	495,656
2032	425,000	60,031	485,031
2033	425,000	48,875	473,875
2034	425,000	37,188	462,188
2035	425,000	25,500	450,500
2036	425,000	12,750	437,750
	<u>\$ 7,240,000</u>	<u>\$ 2,022,887</u>	<u>\$ 9,262,887</u>

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Description	Original Bonds Issued	Bonds Outstanding October 1, 2018
Chelford City Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2009	\$ 4,800,000	\$ 3,050,000
Chelford City Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2012	1,150,000	1,100,000
Chelford City Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2016	<u>3,425,000</u>	<u>3,425,000</u>
TOTAL	<u>\$ 9,375,000</u>	<u>\$ 7,575,000</u>
Bond Authority:	<u>Utility Facilities Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 32,300,000	
Amount Issued	<u>20,675,000</u>	
Remaining to be Issued	<u>\$ 11,625,000</u>	<u>*</u>

* The \$21,000,000 in bonds voted in September 2002 can be sold as either original issue bonds or refunding bonds. The District previously issued \$7,255,000 of refunding bonds to replace \$7,255,000 of original bonds issued.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding September 30, 2019</u>	
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 310,000	\$ 120,712	\$ 2,740,000	Wells Fargo Bank Texas, N.A.
	25,000	39,250	1,075,000	Wells Fargo Bank Texas, N.A.
		<u>90,875</u>	<u>3,425,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, Texas
<u>\$ - 0 -</u>	<u>\$ 335,000</u>	<u>\$ 250,837</u>	<u>\$ 7,240,000</u>	

Debt Service Fund cash and investment balances as of September 30, 2019: \$ 322,156

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 544,876

For interest rates, interest payment dates and maturity dates, see Note 3.

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 624,489	\$ 594,759	\$ 533,566
Water Service	528,364	533,722	591,044
Wastewater Service	554,435	533,563	531,675
Water Authority Fees	720,752	681,766	557,905
Penalty and Interest	42,491	40,488	45,048
Sales Tax Revenues	17,790	18,103	18,854
Investment and Miscellaneous Revenues	224,885	221,356	228,893
TOTAL REVENUES	\$ 2,713,206	\$ 2,623,757	\$ 2,506,985
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 141,243	\$ 120,061	\$ 126,132
Contracted Services	98,251	96,021	94,606
Purchased Water Service	772,339	762,842	699,128
Purchased Wastewater Service	345,215	427,422	502,483
Repairs and Maintenance	422,223	258,823	416,716
Other	390,944	303,290	291,268
Capital Outlay			122,725
TOTAL EXPENDITURES	\$ 2,170,215	\$ 1,968,459	\$ 2,253,058
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 542,991	\$ 655,298	\$ 253,927
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ - 0 -	\$ -0-	\$ 79,182
NET CHANGE IN FUND BALANCE	\$ 542,991	\$ 655,298	\$ 333,109
BEGINNING FUND BALANCE	3,827,169	3,171,871	2,838,762
ENDING FUND BALANCE	\$ 4,370,160	\$ 3,827,169	\$ 3,171,871

See accompanying independent auditor's report.

		Percentage of Total Revenues						
2016	2015	2019	2018	2017	2016	2015		
\$ 496,410	\$ 456,620	22.9 %	22.8 %	21.2 %	21.0 %	20.3 %		
578,466	550,983	19.5	20.3	23.6	24.6	24.5		
534,281	524,845	20.4	20.3	21.2	22.7	23.4		
557,905	501,013	26.6	26.0	22.3	23.7	22.3		
45,048	43,818	1.6	1.5	1.8	1.9	1.9		
22,826	31,509	0.7	0.7	0.8	1.0	1.4		
120,547	138,609	8.3	8.4	9.1	5.1	6.2		
<u>\$ 2,355,483</u>	<u>\$ 2,247,397</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>		
\$ 131,073	\$ 115,284	5.2 %	4.6 %	5.0 %	5.6 %	5.1 %		
94,034	92,758	3.6	3.7	3.8	4.0	4.1		
644,460	590,357	28.5	29.1	27.9	27.4	26.3		
334,440	445,593	12.7	16.3	20.0	14.2	19.8		
456,733	490,985	15.6	9.9	16.6	19.4	21.8		
287,494	317,782	14.4	11.6	11.6	12.2	14.1		
137,687	453,465			4.9	5.8	20.2		
<u>\$ 2,085,921</u>	<u>\$ 2,506,224</u>	<u>80.0 %</u>	<u>75.2 %</u>	<u>89.8 %</u>	<u>88.6 %</u>	<u>111.4 %</u>		
<u>\$ 269,562</u>	<u>\$ (258,827)</u>	<u>20.0 %</u>	<u>24.8 %</u>	<u>10.2 %</u>	<u>11.4 %</u>	<u>(11.4) %</u>		
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>							
\$ 269,562	\$ (258,827)							
<u>2,569,200</u>	<u>2,828,027</u>							
<u>\$ 2,838,762</u>	<u>\$ 2,569,200</u>							

See accompanying independent auditor's report.

CHELFORD CITY MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 624,977	\$ 627,044	\$ 621,204
Penalty and Interest	17,955	21,425	23,365
Investment and Miscellaneous Revenues	<u>13,035</u>	<u>9,197</u>	<u>4,394</u>
TOTAL REVENUES	<u>\$ 655,967</u>	<u>\$ 657,666</u>	<u>\$ 648,963</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 59,845	\$ 64,559	\$ 62,525
Debt Service Principal	335,000	350,000	350,000
Debt Service Interest and Fees	<u>253,387</u>	<u>264,887</u>	<u>303,667</u>
TOTAL EXPENDITURES	<u>\$ 648,232</u>	<u>\$ 679,446</u>	<u>\$ 716,192</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 7,735</u>	<u>\$ (21,780)</u>	<u>\$ (67,229)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Long-Term Debt	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 7,735	\$ (21,780)	\$ (67,229)
BEGINNING FUND BALANCE	<u>312,494</u>	<u>334,274</u>	<u>401,503</u>
ENDING FUND BALANCE	<u>\$ 320,229</u>	<u>\$ 312,494</u>	<u>\$ 334,274</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>2,823</u>	<u>2,801</u>	<u>2,799</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>2,794</u>	<u>2,772</u>	<u>2,769</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 613,912	\$ 539,534	95.3 %	95.3 %	95.7 %	96.2 %	96.7 %
22,550	17,953	2.7	3.3	3.6	3.5	3.2
1,796	289	2.0	1.4	0.7	0.3	0.1
<u>\$ 638,258</u>	<u>\$ 557,776</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 59,121	\$ 58,465	9.1 %	9.8 %	9.6 %	9.3 %	10.5 %
340,000	330,000	51.1	53.2	53.9	53.3	59.2
<u>206,838</u>	<u>222,288</u>	<u>38.6</u>	<u>40.3</u>	<u>46.8</u>	<u>32.4</u>	<u>39.9</u>
<u>\$ 605,959</u>	<u>\$ 610,753</u>	<u>98.8 %</u>	<u>103.3 %</u>	<u>110.3 %</u>	<u>95.0 %</u>	<u>109.6 %</u>
<u>\$ 32,299</u>	<u>\$ (52,977)</u>	<u>1.2 %</u>	<u>(3.3) %</u>	<u>(10.3) %</u>	<u>5.0 %</u>	<u>(9.6) %</u>
<u>\$ 90,875</u>	<u>\$ - 0 -</u>					
\$ 123,174	\$ (52,977)					
<u>278,329</u>	<u>331,306</u>					
<u>\$ 401,503</u>	<u>\$ 278,329</u>					
<u>2,793</u>	<u>2,813</u>					
<u>2,764</u>	<u>2,786</u>					

See accompanying independent auditor's report.

Expense Reimbursements for the year ended September 30, 2019		
<u>District</u>	<u>Plant</u>	<u>Title</u>
\$ 4,600	\$ 157	President
\$ 3,457	\$ 63	Vice President
\$ 46	\$ 31	Assistant Vice President/Assistant Secretary
\$ 2,380	\$ 103	Secretary/ Investment Officer
\$ 2,451	\$ 112	Treasurer/ Assistant Secretary

See accompanying independent auditor's report.

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**CHELFORD CITY MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2019**

Consultants:	<u>Date Hired</u>	Fees for the year ended <u>September 30, 2019</u>		<u>Title</u>
		<u>District</u>	<u>Jt. Facilities</u>	
Coats Rose, P.C.	09/01/80	\$ 88,486	\$ 81,288	General Counsel
McCall Gibson Swedlund Barfoot PLLC	08/29/89	\$ 14,750	\$ 12,500	Auditor
McLennan & Associates	11/09/04	\$ 29,141	\$ 36,340	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP	02/12/96	\$ 5,430	\$ -0-	Delinquent Tax Attorney
Van De Wiele & Vogler, Inc.	02/25/75	\$ 133,151	\$ 260,208	Engineer
Masterson Advisors LLC	05/07/18	\$ -0-	\$ -0-	Financial Advisor
Si Environmental, LLC	06/21/12	\$ 692,486	\$ 607,458	Operator
Bob Leared Interests	03/03/75	\$ 41,214	\$ -0-	Tax Assessor/ Collector

See accompanying independent auditor's report.