OFFICIAL STATEMENT DATED APRIL 5, 2018

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

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

NEW ISSUE - Book -Entry-Only

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

$10,575,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 504
(A Political Subdivision of the State of Texas, located within Harris County, Texas)
UNLIMITED TAX BONDS, SERIES 2018

Dated: May 1, 2018 **Due: September 1**

Principal of the above bonds (the "Bonds") is payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N. A., currently in Dallas, Texas, or any successor paying agent/registrar (the "Paying Agent," "Registrar" or "Paying Agent/Registrar"). Interest on the Bonds accrues from May 1, 2018, and is payable on March 1, 2019 (ten-month interest payment), and on each September 1 and March 1 thereafter until the earlier of maturity or redemption. The Bonds are issued in denominations of $5,000 or any integral multiple thereof in fully registered form only.

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

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM" or the "Insurer").

BAM

MATURITY SCHEDULE
CUSIP Prefix (a) 41423R

$5,770,000 Serial Bonds

Principal Amount	Maturity (Due September 1)	Interest Rate	Initial Reoffering Yield (b)	CUSIP Suffix (a)	Principal Amount	Maturity (Due September 1)	Interest Rate	Initial Reoffering Yield (b)	CUSIP Suffix (a)
$205,000	2021	5.625%	2.25%	CH4	$305,000	2031(c)	3.250%	3.40%	CT8
215,000	2022	5.625	2.40	CJ0	320,000	2032(c)	3.250	3.50	CU5
220,000	2023	5.625	2.50	CK7	335,000	2033(c)	3.375	3.55	CV3
235,000	2024(c)	5.625	2.51	CL5	350,000	2034(c)	3.375	3.60	CW1
245,000	2025(c)	5.625	2.52	CM3	365,000	2035(c)	3.500	3.65	CX9
250,000	2026(c)	5.625	2.53	CN1	375,000	2036(c)	3.500	3.70	CY7
260,000	2027(c)	5.625	2.54	CP6	395,000	2037(c)	3.500	3.72	CZ4
275,000	2028(c)	5.000	2.68	CQ4	415,000	2038(c)	3.625	3.74	DA8
280,000	2029(c)	3.125	3.20	CR2	430,000	2039(c)	3.625	3.76	DB6
295,000	2030(c)	3.125	3.30	CS0					

$1,410,000 Term Bonds, Due September 1, 2042(c)(d), CUSIP Suffix DE0 (a), Interest Rate 3.625% (Yield 3.82%)(b)
$1,040,000 Term Bonds, Due September 1, 2044(c)(d), CUSIP Suffix DG5 (a), Interest Rate 3.75% (Yield 3.84%)(b)
$2,355,000 Term Bonds, Due September 1, 2047(c)(d), CUSIP Suffix DK6 (a), Interest Rate 3.75% (Yield 3.90%)(b)

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(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District (hereinafter defined), the Financial Advisor (hereinafter defined), nor the Underwriter (hereinafter defined) take any responsibility for the accuracy of CUSIP numbers.

(b) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriter. Initial reoffering yields represent the initial offering price to the public which has been established by the Underwriter for public offerings, and which subsequently may be changed.

(c) The Bonds, including the Term Bonds, maturing on and after September 1, 2024, are subject to redemption prior to maturity at the option of Harris County Municipal Utility District No. 504 (the "District"), as a whole or in part, on September 1, 2023, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

(d) Subject to mandatory redemption by lot or other customary method of random selection on September 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions."

If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of the Bonds to be redeemed shall be selected by the District in integral multiples of $5,000 within any one maturity. If fewer than all of the Bonds of any given maturity are to be redeemed at any time, the particular Bonds to be redeemed shall be selected by such method of random selection as determined by the Registrar (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond, all or a portion of which as been called for redemption, shall be required to present same to the Registrar for payment of the redemption price on the portion of the Bond so called for redemption and the issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

The Bonds constitute the third series of unlimited tax bonds issued by the District for the purpose of acquiring and constructing a waterworks, sanitary sewer and storm drainage system (the "System") to serve the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. SEE "INVESTMENT CONSIDERATIONS." Voters in the District authorized a total of $247,320,000 principal amount of unlimited tax bonds for the purpose of acquiring and constructing the System and refunding purposes, $131,380,000 principal amount of unlimited tax bonds for road facilities and refunding purposes, and $40,700,000 principal amount of unlimited tax bonds for recreational facilities and refunding purposes. Following the issuance of the Bonds, $226,695,000 principal amount of unlimited tax bonds for the acquisition or construction of the System and refunding purposes, $131,380,000 principal amount of unlimited tax bonds for road facilities and refunding purposes, and $40,700,000 principal amount of unlimited tax bonds for recreational facilities and refunding purposes authorized by the District's voters will remain authorized but unissued. See "THE BONDS – Issuance of Additional Debt."

The Bonds, when issued, will constitute valid and legally binding obligations of the District, and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. Investment in the Bonds is subject to special risk factors as described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject among other things to the approval of the Attorney General of Texas and of Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Disclosure Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about May 8, 2018, at The Bank of New York Mellon Trust Company, N.A., in Dallas Texas.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any 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, resolutions, contracts, audited financial statements, and engineering and other related reports set forth in the 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 the Financial Advisor.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or that they will be realized. Any information and expressions of opinion herein contained are subject to change 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 the Official Statement until delivery of the Bonds to the Underwriter (as hereinafter defined) and thereafter only as described under "OFFICIAL STATEMENT - Updating of Official Statement."

Neither the District nor the Underwriter makes any representations as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "predict," "should," "will" or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions and expected future developments as well as other factors the District believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "INVESTMENT CONSIDERATIONS" in this Official Statement, as well as additional factors beyond the District's control. The important investment considerations and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements.

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets, Inc. (referred to herein as the "Underwriter" or the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown under "MATURITY SCHEDULE" at a price of 97.0% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 3.900628%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Marketability

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

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, 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 PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM" or the "Insurer") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2017 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $515 million, $87.7 million and $427.3 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments.

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

The long-term ratings on the Bonds are dependent in part on the financial strength of the Insurer and its claim paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "BOND INSURANCE" and "RATING" herein. As is stated in this Official Statement under the caption "LEGAL MATTERS - No Material Adverse Change," the rating of the Insurer's creditworthiness by any rating agency does not in any manner affect the District's financial condition, and thus any change to such rating, including a downgrade thereof, at any time, does not constitute a change, material or otherwise, in the District's financial condition, and therefore cannot be a basis for termination by the Underwriter of its obligations to take up and pay 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 Underwriters has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

RATING

S&P Global Ratings ("S&P") is a business unit of Standard & Poor's Financial Services LLC. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest ratings).

The Bonds are expected to receive an insured rating of "AA" (stable outlook) from S&P based upon the issuance of the Policy by the Insurer at the time of delivery of the Bonds. The Bonds do not currently have an underlying rating.

An explanation of the significance of the foregoing rating may only be obtained from S&P. The foregoing rating expresses only the view of S&P at the time the rating is given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

The Issuer	Harris County Municipal Utility District No. 504 (the "District") is a political subdivision of the State of Texas located within Harris County, Texas. See "THE DISTRICT - General."
Description	$10,575,000 Unlimited Tax Bonds, Series 2018, are dated May 1, 2018. An aggregate of $5,770,000 of the Bonds are issued as serial bonds maturing on September 1 in each of the years 2021 through 2039, both inclusive, in the principal amounts set forth on the cover of this Official Statement. An aggregate of $4,805,000 of the Bonds are issued as term bonds maturing on September 1 in each of the years 2042, 2044, and 2047, in the respective principal amounts set forth on the cover hereof (collectively, the "Term Bonds"). Interest on the Bonds accrues from May 1, 2018, at the rates shown on the cover hereof, and is payable on March 1, 2019 (ten-month interest payment), and on each September 1 and March 1 thereafter until maturity or prior redemption. The Bonds are issued in fully registered form and will be issued in denominations of $5,000 of principal amount or integral multiples thereof. The Bonds, including the Term Bonds, scheduled to mature on and after September 1, 2024, are subject to redemption, in whole or in part, prior to their scheduled maturities, on September 1, 2023, or on any date thereafter at the option of the District. Upon redemption, the Bonds will be payable at a price equal to the principal amount of the Bonds, or portions thereof, so called for redemption, plus accrued interest to the date of redemption. In addition to being subject to optional redemption, the Term Bonds are also subject to mandatory sinking fund redemption on September 1 in the years and in the amounts as more completely described in this Official Statement. See "THE BONDS."
Book-Entry-Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC (as defined herein), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

Source of Payment . . . . Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “THE BONDS - Source of Payment,” “TAX DATA - Tax Rate Calculations,” and “INVESTMENT CONSIDERATIONS - Maximum Impact on District Tax Rates.”

Use of Proceeds . . . . Proceeds of the sale of the Bonds will be used by the District to finance the District’s cost of (i) acquisition or construction of water supply and distribution, wastewater collection and treatment and storm drainage/detention facilities (the “System”), particularly, The Groves, Sections 1 through 9, the West Lake Houston Parkway Intersection and Madera Run Parkway Street Dedication, Section 1; (ii) acquisition or construction of The Groves, Section 7 Fernbank Forest Culvert crossing; lease payments for future wastewater treatment plant; clearing and grubbing to serve Kings Parkway, Madera Run Parkway Street Dedication, Section 1, Madera Run Parkway to the 15-acre school site; and The Groves, Sections 5 through 10; and capital cost payments to Harris County Municipal Utility District No. 412 (“HCMUD No. 412") for participation in existing water, sewer and drainage facilities; (iii) pay engineering and materials testing fees associated with the foregoing projects, and Storm Water Pollution Prevention Plans; (iv) pay interest on advances made on behalf of the District; and (v) pay for administrative and issuance costs, legal fees, fiscal agent's fees, a fee to the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), engineering fees, costs associated with the operation of the District, and certain financing costs related to the issuance of the BAN (defined below) and Bonds. The District will also retire its $5,585,000 Bond Anticipation Note, Series 2017 (the “BAN”), including the payment of principal of and interest thereon, with a portion of the proceeds of the sale of the Bonds. The District utilized the proceeds of the BAN to interim finance certain of the aforementioned facilities that it is financing with the proceeds of the sale of the Bonds. See “THE BONDS - Use and Distribution of Bond Proceeds.”

Payment Record . . . . The Bonds are the third series of unlimited tax bonds issued by the District. The District has previously issued Unlimited Tax Bonds, Series 2015 (the “Series 2015 Bonds”) and Unlimited Tax Bonds, Series 2017 (the “Series 2017 Bonds”) (the “Prior Bonds”). After the issuance of the Bonds, the aggregate principal amount of the Prior Bonds that have not been previously retired by the District will be $10,050,000 (the “Outstanding Bonds”), and the aggregate principal amount of the District’s bonded indebtedness, including the Bonds, will be $20,625,000. The District has timely made all payments on the Prior Bonds when due.

Authorized But Unissued Bonds	$226,695,000 for waterworks, wastewater, and drainage facilities and refunding purposes (after issuance of the Bonds), $131,380,000 for road facilities and refunding purposes, and $40,700,000 for parks and recreational facilities and refunding purposes. See "THE BONDS - Issuance of Additional Debt." In addition to the components of the System that the District has financed with portions of the proceeds of the sale of the Prior Bonds, and is financing with portions of the proceeds of the sale of the Bonds (see "THE BONDS - Use and Distribution of Bond Proceeds" and "THE SYSTEM"), the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future, including its approximately $11,165,000 Unlimited Tax Bonds, Series 2019, which the District expects to issue in approximately the second quarter of 2019. See "THE BONDS - Issuance of Additional Debt," "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."
Municipal Bond Insurance	Build America Mutual Assurance Company ("BAM"). See "BOND INSURANCE."
Municipal Bond Rating	S&P Global Ratings (BAM insured) "AA" (stable outlook). See "BOND INSURANCE" and "RATING." The Bonds do not currently have an underlying rating.
Bond Counsel	Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
Not Qualified Tax-Exempt Obligations	The Bonds are **not** "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

THE DISTRICT

Description	The District is a political subdivision of the State of Texas, created by Order of the TCEQ on March 3, 2009. The District contains approximately 494.18 acres of land. The District is located entirely within Harris County, Texas, within the extraterritorial jurisdiction of the City of Houston, Texas (the "City"), and within the Humble Independent School District. The District is located in northeast Harris County, approximately 20 miles northeast of downtown Houston, approximately 5 miles north of the intersection of Beltway 8 and West Lake Houston Parkway and is bordered by undeveloped acreage to the south and west, Union Pacific Railroad and Harris County Municipal Utility District No. 412 to the east and Harris County Municipal Utility District No. 290 to the north. See "THE DISTRICT - General" and - "Description," and "APPENDIX A - LOCATION MAP." LH Groves LLC owns approximately 498.78 acres of land located outside the boundaries of the District and has filed an annexation petition with the District requesting that such land

be annexed into the District. The District has petitioned the City for consent to annex such land. The District makes no representation that the annexation will be consummated.

Authority . . . . The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 of the Constitution of the State of Texas and the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT - General.”

Development and Home Construction . . . . Land within the District is being developed as The Groves, a master-planned single-family residential community that as of February 1, 2018, contained a total of 452 single-family residences, including 99 residences under construction. See “Builders” below.

The development of 646 single-family residential lots (approximately 217.4 total acres) is complete within the District. Such property has been subdivided as The Groves, Sections 1 through 12, 14, 15, 19 and 22. All of such lots have been provided water supply and distribution, wastewater collection and treatment and storm drainage/detention facilities and street paving. In addition, the Developer (defined below under the caption “Developer”) has initiated the development of The Groves, Sections 16, 18, and 23 (139 total lots, approximately 36.8 total acres). The Developer anticipates the completion of the development of such sections, including street paving, by approximately April 2018.

Chesmar Homes, Darling Homes, Lennar Homes, Highland Homes, Perry Homes, Taylor Morrison Homes, Trendmaker Homes, Village Builders, and Westin Homes (collectively, the “Builders”) have been and are expected to be principal builders of homes on lots developed by the Developer in the District. The Developer has contracted to sell developed lots in the District to the Builders, as is discussed under the caption “Builders.”

The Developer owns approximately 82.1 acres of currently undeveloped land located within the District which are available for future development, approximately 75.1 acres of which are expected to be developed as future sections of The Groves (approximately 211 single-family residential lots) and approximately 7 acres of which are expected to be utilized for commercial purposes. Although the Developer has informed the District that it plans to complete the development of the remainder of its currently undeveloped land located in the District in the future, it is under no obligation to the District to develop any of such land. Therefore, the District cannot predict whether or when any of such property owned by the Developer will be developed. The Humble Independent School District (“HISD”) owns approximately 45.1 acres of land located within the District which are not subject to taxation by the District on which HISD has constructed an elementary school and is constructing a middle school (completion anticipated by August 2018). The YMCA is expected to lease approximately 5.0 acres of the land owned by HISD on which baseball fields, playgrounds and pavilions with restrooms are planned. The balance of the land located in the District consists of acres located in street and drainage rights-of-way, District drainage areas or which are otherwise not available for future development. See "FUTURE DEVELOPMENT."

LH Groves LLC owns approximately 498.78 acres of land located outside the boundaries of the District and has filed an annexation petition with the District requesting that such land be annexed into the District. The District has petitioned the City for consent to annex such land. The District makes no representation that the annexation will be consummated.

The District financed the culvert crossing at Union Pacific Railroad and Harris County Flood Control District Unit No. G103-55-99 to serve the District, Lift Station No. 1, Phase 1; wastewater treatment plant expansion; lease payments for future wastewater treatment plant expansion; The Groves Drainage Channel, Phase 1; The Groves offsite utilities, a surface water transmission line along West Lake Houston Parkway; a surface water transmission line within City of Houston water plant site; clearing and grubbing to serve The Groves drainage channel, Phase 1, The Groves off-site utilities, and The Groves, Sections 1 through 4; capital cost payments to Harris County Municipal Utility District No. 412 ("HCMUD No. 412") for participation in existing water, sewer and drainage facilities; among other items, with the proceeds of the sale of the Prior Bonds. The District will finance construction and acquisition of components of the System to serve The Groves, Sections 1 through 9, the West Lake Houston Parkway Intersection and Madera Run Parkway Street Dedication, Section 1; the cost of The Groves, Section 7 Fernbank Forest Culvert crossing; lease payments for future wastewater treatment plant; clearing and grubbing to serve Kings Parkway, Madera Run Parkway Street Dedication, Section 1, Madera Run Parkway to the 15-acre school site; and The Groves, Sections 5 through 10; and capital cost payments to HCMUD No. 412 for participation in existing water, sewer and drainage facilities, among other items, with the proceeds of the sale of the Bonds. The District will finance its cost of acquiring or constructing additional components of the System with the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately $11,165,000 Unlimited Tax Bonds, Series 2019, which the District expects to issue in approximately the second quarter of 2019. See "THE BONDS - Issuance of Additional Debt," "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."

Developer	The developer of The Groves is Ashlar Development LLC, a privately held real estate development company founded in 2017 and based in Dallas, Texas ("Developer" or "Ashlar"). Ashlar is developing The Groves on behalf of the owner of such property, LH Groves LLC. Ashlar, a Delaware limited liability company, was established by a private investment firm with experience in the acquisition, development and construction of residential communities across the U.S. and Europe, including several in Texas. Funds managed by such private investment firm acquired The Groves, through the entity LH Groves LLC, in February 2017 from the previous developer, Crescent Communities, LLC, which had owned the property since 2012. The Developer is financing its acquisition and development activities within the District with the proceeds of a development loan from IBC Bank ("IBC"). The IBC Loan, which is dated February 2017, is a revolving line of credit secured by a first lien deed of trust against the property owned by LH Groves LLC in the District and an assignment of contract rights of LH Groves LLC to receivables to be received from the District. The IBC Loan provides that, in the event LH Groves LLC receives reimbursement of any such receivables assigned to it, 90% of such amount shall be applied to reduce the then outstanding balance of the loan and that the principal amount of the revolving credit represented by the note will be correspondingly reduced. The Developer has made no commitment for the payment of debt service on the Bonds. Only the owners of taxable property located in the District are legally responsible for the payment of ad valorem taxes to the District and other taxing authorities.
Builders	As is described in this Official Statement under the caption "DEVELOPMENT AND HOME CONSTRUCTION," as of February 1, 2018, the District contained 452 single-family residences, including 99 residences under construction. Current builders of homes located within the District are: Chesmar Homes, Darling Homes, Lennar Homes, Highland Homes, Perry Homes, Taylor Morrison Homes, Trendmaker Homes, Village Builders, and Westin Homes. Such homebuilding companies are collectively referred to herein as the "Builders." See "DEVELOPMENT AND HOME CONSTRUCTION" for descriptions of the subdivisions located within the District in which the Builders are currently constructing homes. Lot sales contracts between the Developer and the Builders are option contracts with the sole remedy of the Developer upon an event of default by the Builder being retention of nominal option consideration. According to the Developer, homes currently being constructed by Chesmar Homes in the District range in size from approximately 1,891 square feet to 2,649 square feet of living area and in sales price from approximately $240,990 to

$294,990; homes currently being constructed by Darling Homes in the District range in size from approximately 2,632 square feet to 3,653 square feet of living area and in sales price from $306,990 to $455,990; homes currently being constructed by Lennar Homes in the District range in size from approximately 1,857 square feet to 2,841 square feet of living area and in sales price from approximately $249,990 to $308,990; homes currently being constructed by Highland Homes in the District range in size from approximately 2,361 square feet to 3,791 square feet of living area and in sales price from approximately $329,990 to $437,990; homes currently being constructed by Perry Homes in the District range in size from approximately 2,187 square feet to 3,799 square feet of living area and in sales price from approximately $277,900 to $432,900; homes currently being constructed by Taylor Morrison Homes in the District range in size from approximately 3,265 square feet to 4,842 square feet of living area and in sales price from approximately $397,990 to $490,990; homes currently being constructed by Trendmaker Homes in the District range in size from approximately 2,127 square feet to 4,232 square feet of living area and in sales price from approximately $322,990 to $509,990; homes currently being constructed by Village Builders in the District range in size from approximately 2,336 square feet to 3,226 square feet of living area and in sales price from approximately $267,990 to $390,990; and homes currently being constructed by Westin Homes in the District range in size from approximately 2,475 square feet to 2,986 square feet of living area and in sales price from approximately $296,990 to $342,990.

INVESTMENT CONSIDERATIONS

THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISIONS, ESPECIALLY THE PORTION OF THE OFFICIAL STATEMENT ENTITLED “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION
(Unaudited)

2017 Assessed Valuation (As of January 1, 2017) See "TAX DATA" and "TAXING PROCEDURES"		$ 110,438,846(a)
Estimated Valuation at January 1, 2018 (As of January 1, 2018) See "TAX DATA" and "TAXING PROCEDURES"		$ 171,711,023(b)
Direct Debt: Outstanding Bonds		$ 10,050,000
The Bonds		$ 10,575,000(c)
Total		$ 20,625,000
Estimated Overlapping Debt		$ 5,306,273
Direct and Estimated Overlapping Debt		$ 25,931,273(c)
Direct Debt Ratios		
: as a percentage of 2017 Assessed Valuation		18.68%
: as a percentage of Estimated Valuation at January 1, 2018		12.01%
Direct and Estimated Overlapping Debt Ratios		
: as a percentage of 2017 Assessed Valuation		23.48%
: as a percentage of Estimated Valuation at January 1, 2018		15.10%
Debt Service Fund Balance at March 1, 2018		$ 860,035(d)
General Fund Balance Estimated as of Delivery of the Bonds		$ 841,913(e)
Average Percentage of Total Tax Collection (2014-2016 Levies) As of February 28, 2018.		99.86%
Percentage of Total Tax Collections 2017 Levy As of February 28, 2018. In process of collection.		96.58%
2017 Tax Rate Per $100 of Assessed Valuation		
Debt Service Tax	$0.69	
Maintenance Tax	0.70	
Total		$1.39(e)(f)
Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2019-2047)		$ 1,199,139
Maximum Annual Debt Service Requirement of the Bonds and the Outstanding Bonds (2047)		$ 1,265,750
Tax Rate per $100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2019-2047) at 95% Tax Collections		
Based Upon 2017 Assessed Valuation		$1.15(c)(f)
Based Upon Estimated Valuation at January 1, 2018		$0.74(c)(f)

Tax Rate per $100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement of the Bonds and the Outstanding Bonds (2047) at 95% Tax Collections	
Based Upon 2017 Assessed Valuation	$1.21(c)(f)
Based Upon Estimated Valuation at January 1, 2018	$0.78(c)(f)
Number of Single Family Residences (including 99 residences under construction) as of February 1, 2018	452

(a) As of January 1, 2017. All property located in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed valuation as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). See "TAXING PROCEDURES" and "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."

(b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of January 1, 2018, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2017, through December 31, 2017. The ultimate assessed valuation of such additions to the District's tax roll resulting from development and construction activity from January 1, 2017, through December 31, 2017, may vary significantly from this estimate when the Appraisal Review Board certifies the valuation of District property for the purpose of determining the District's 2018 tax roll, which will be based on the valuation of District property as of January 1, 2018.

(c) See "DISTRICT DEBT." In addition to the components of the System that the District has financed with portions of the proceeds of the sale of the Prior Bonds, and is financing with portions of the proceeds of the sale of the Bonds (see "THE BONDS - Use and Distribution of Bond Proceeds" and "THE SYSTEM"), the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future, including its approximately $11,165,000 Unlimited Tax Bonds, Series 2019, which the District expects to issue in approximately the second quarter of 2019. See "THE BONDS - Issuance of Additional Debt," "INVESTMENT CONSIDERATIONS - Future Debt," and "THE SYSTEM."

(d) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund. Such sum gives effect to the payment by the District of its debt service requirements that were due on March 1, 2018. The District's remaining debt service payments for 2018, consisting of principal of and interest on the Outstanding Bonds, are due on September 1, 2018, and total $278,563. The District's initial debt service payment on the Bonds, consisting of a ten-month interest payment due thereon, is due on March 1, 2019.

(e) $785,463 General Fund balance at March 1, 2018, plus approximately $56,450 to be deposited in the General Fund from the proceeds of the sale of the Bonds.

(f) The District levied a debt service tax rate of $0.69 per $100 of Assessed Valuation and a maintenance tax of $0.70 per $100 of Assessed Valuation for 2017. Therefore, the District's combined total tax for 2017 is $1.39 per $100 of Assessed Valuation. As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2017 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's 2017 rate, is $3.852975. Such aggregate levies are higher than the aggregate tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of many municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District. See "TAXING PROCEDURES" and "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 504
UNLIMITED TAX BONDS
SERIES 2018

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Harris County Municipal Utility District No. 504 (the "District") of its $10,575,000 Unlimited Tax Bonds, Series 2018 (the "Bonds").

There follow in this Official Statement descriptions of the Bonds, and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon request and payment of the costs of duplication thereof.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the resolution (the "Bond Resolution") of the Board of Directors of the District (the "Board") authorizing the issuance of the Bonds. A copy of the Bond Resolution may be obtained from the District upon written request made to the District's Financial Advisor, Rathmann & Associates, L.P., 8584 Katy Freeway, Suite 250, Houston, Texas 77024.

The Bonds are dated May 1, 2018. Interest accrues from May 1, 2018, at the rates shown on the cover hereof, and is payable on March 1, 2019 (ten-month interest payment), and on each September 1 and March 1 thereafter until the earlier of stated maturity or redemption. An aggregate of $5,770,000 of the Bonds are issued as serial bonds maturing on September 1 in each of the years 2021 through 2039, both inclusive, in the principal amounts set forth on the cover of this Official Statement. An aggregate of $4,805,000 of the Bonds are issued as term bonds maturing on September 1 in each of the years 2042, 2044, and 2047, in the respective principal amounts set forth on the cover hereof (collectively, the "Term Bonds"). The Bonds are issued in fully registered form and will be issued in denominations of $5,000 of principal amount or integral multiples thereof. Principal of the Bonds will be payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas, or any successor paying agent/registrar (the "Paying Agent," "Registrar" or "Paying Agent/Registrar").

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

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, ("DTC") while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor takes any responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the

Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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.

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or 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 to DTC.

Assignments, Transfers and Exchanges

In the event the book-entry-only system is discontinued, the Bonds may be transferred, registered and assigned only on the registration books of the Registrar, and such registration and transfer shall be without expense or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Registrar. At any time after the date of delivery of the Bonds to the Initial Purchaser, any Bond may be transferred or exchanged upon its presentment and surrender at the office of the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the owner in not more than three business days after the receipt of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in denominations of $5,000 or any integral multiple thereof for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. Neither the District nor the Registrar is required (1) to transfer or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding interest payment date, or (2) to transfer or exchange any Bond selected for redemption in whole or in part within thirty (30) calendar days of the redemption date. The District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds, on receipt of satisfactory evidence of such destruction, loss or theft and receipt by the District and the Registrar of security or indemnity to keep them harmless. The District will require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Redemption Provisions

Optional Redemption

The Bonds, including the Term Bonds, maturing on and after September 1, 2024, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

Mandatory Redemption

The Term Bonds are subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on September 1 in the years and in the amounts set forth below, subject to reduction by the amount of any prior optional redemption or cancellation, at a redemption price of par plus accrued interest to the date of redemption:

$1,410,000 Term Bonds Maturing on September 1, 2042

Mandatory Redemption Dates	Principal Amount
September 1, 2040	$450,000
September 1, 2041	470,000
September 1, 2042 (maturity)	490,000

$1,040,000 Term Bonds Maturing on September 1, 2044

Mandatory Redemption Dates	Principal Amount
September 1, 2043	$510,000
September 1, 2044 (maturity)	530,000

$2,355,000 Term Bonds Maturing on September 1, 2047

Mandatory Redemption Dates	Principal Amount
September 1, 2045	$ 560,000
September 1, 2046	575,000
September 1, 2047 (maturity)	1,220,000

On or before 30 days prior to each Mandatory Redemption date set forth above, the Registrar shall (i) determine the principal amount of such Term Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary method of random selection, the Term Bonds or portions of Term Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of Term Bonds of a particular maturity to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced, at the option of the District, by the principal amount of Term Bonds of such maturity, which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Notice of any redemption will be given by the Registrar at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register.

If fewer than all of the Bonds are optionally redeemed at any time, the particular maturities and amounts of Bonds to be redeemed shall be selected by the District in denominations of $5,000 or any integral multiple thereof within any one maturity. If fewer than all of the Bonds within a certain maturity are to be redeemed, the Paying Agent/Registrar shall designate the Bonds within such maturity to be redeemed by method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). In the event the book-entry-only system is discontinued, the registered owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Replacement of Registrar

Provision is made in the Bond Resolution for replacement of the Registrar. If the Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Registrar. In order to act as Registrar for the Bonds, any paying agent/registrar selected by the District shall be a national or state banking institution, 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.

Authority for Issuance

At an election held within the District on November 5, 2013, voters of the District authorized a total of $247,320,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and refunding such bonds, $131,380,000 for road facilities and refunding such bonds, and $40,700,000 for parks and recreational facilities and refunding such bonds. The Bonds constitute the third issuance of bonds from such authorization. The District has previously issued Unlimited Tax Bonds, Series 2015 (the "Series 2015 Bonds") and Unlimited Tax Bonds, Series 2017 (the "Series 2017 Bonds") (the "Prior Bonds"). After the issuance of the Bonds, the aggregate principal amount of the Prior Bonds that have not been previously retired by the District will be $10,050,000 (the "Outstanding Bonds"), and the aggregate principal amount of the District's bonded indebtedness, including the Bonds, will be $20,625,000. After sale of the Bonds, a total of $226,695,000 in principal amount of unlimited tax bonds for water, sewer and drainage facilities and refunding such bonds, $131,380,000 for road facilities and refunding such bonds, and $40,700,000 for parks and recreational facilities and refunding such bonds will remain authorized but unissued. 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; Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the Texas Commission on Environmental Quality (the "TCEQ" or "Commission").

Source of Payment

The Bonds, the Outstanding Bonds and any additional bonds payable in whole or in part from taxes, are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Resolution, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collection, and Paying Agent/Registrar fees. Such proceeds, after deduction for collection costs, will be placed in the Debt Service Fund and used solely to pay principal of and interest on the Bonds, and on additional bonds payable from taxes which may hereafter be issued, and Paying Agent/Registrar fees.

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

Issuance of Additional Debt

The District may issue additional bonds with the approval of the TCEQ, necessary to provide improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the issuance of $247,320,000 unlimited tax bonds for construction of water distribution, wastewater collection and storm drainage facilities and refunding purposes, and could authorize additional amounts. Following the issuance of the Bonds, $226,695,000 unlimited tax bonds for water, sewer and drainage facilities and refunding purposes will remain authorized but unissued. The District's voters also have authorized $131,380,000 for road facilities and refunding purposes and $40,700,000 in unlimited tax bonds for parks and recreational facilities and refunding purposes. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be issued by the District (if authorized by the District's voters and approved by the Board and the TCEQ.) In addition to the components of the System that the District has financed with portions of the proceeds of the sale of the Prior Bonds, and is financing with portions of the proceeds of the sale of the Bonds (see "Use and Distribution of Bond Proceeds" below and "THE SYSTEM"), the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future, including its approximately $11,165,000 Unlimited Tax Bonds, Series 2019, which the District expects to issue in approximately the second quarter of 2019. See "INVESTMENT CONSIDERATIONS - Future Debt," and "THE SYSTEM."

Based on present engineering cost estimates and on development plans supplied by the Developer, in the opinion of the District's consulting engineer, Brown & Gay Engineers, Inc. (the "Engineer"), the $226,695,000 authorized but unissued bonds will be adequate to finance the extension of water, wastewater and storm drainage/detention facilities and services to serve all of the remaining undeveloped portions of the District. See "DEVELOPMENT AND HOME CONSTRUCTION," FUTURE DEVELOPMENT," and "THE SYSTEM."

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) approval of park bonds by the Commission; and (b) 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. On November 5, 2013, voters in the District authorized $40,700,000 in bonds for parks and recreational facilities.

No Arbitrage

The District certifies that based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the 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 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.

Annexation and Consolidation

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

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

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

In certain circumstances, the District may alter its boundaries to exclude land subject to taxation within the District that is not served by District facilities if the District simultaneously annexes land of equal acreage and value that may be practicably served by District facilities. No representation is made concerning the likelihood that the District would effect such a substitution of land.

Strategic Partnership

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which the service would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District. Although the City has negotiated and entered into such an agreement with one or more other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District. No representation can be made regarding the future likelihood of an agreement or the terms thereof.

Registered Owners' Remedies

Pursuant to Texas law, the Bond Resolution provides that, in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Resolution into the Debt Service Fund, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Resolution, any Registered Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payments or to observe and perform such covenants, obligations or conditions. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

Except for the remedy of mandamus, the Bond Resolution does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. In addition any legal action taken to seek any such remedies may be limited by the doctrine of sovereign immunity. 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. Even if the Registered Owners could obtain a judgment against the District, such judgment cannot be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. For example, a Chapter 9 bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners. See “Bankruptcy Limitation to Registered Owners' Rights” below.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by 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. Under Texas law, a municipal utility district such as the District must obtain the approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

The District may not be placed into bankruptcy involuntarily.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

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, or with a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Resolution.

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the defeasance securities. 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. Because the Bond Resolution does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality of those currently permitted under Texas law.

Use and Distribution of Bond Proceeds

Proceeds of the sale of the Bonds will be used by the District to finance the District's cost of (i) acquisition or construction of water supply and distribution, wastewater collection and treatment and storm drainage/detention facilities, particularly, The Groves, Sections 1 through 9, the West Lake Houston Parkway Intersection and Madera Run Parkway Street Dedication, Section 1; (ii) acquisition or construction of The Groves, Section 7 Fernbank Forest Culvert crossing; lease payments for future wastewater treatment plant; clearing and grubbing to serve Kings Parkway, Madera Run Parkway Street Dedication, Section 1, Madera Run Parkway to the 15-acre school site; and The Groves, Sections 5 through 10; and capital cost payments to Harris County Municipal Utility District No. 412 ("HCMUD No. 412") for participation in existing water, sewer and drainage facilities; (iii) pay engineering and materials testing fees associated with the foregoing projects, and Storm Water Pollution Prevention Plans; (iv) pay interest on advances made on behalf of the District; and (v) pay for administrative and issuance costs, legal fees, fiscal agent's fees, a fee to the TCEQ, engineering fees, costs associated with the operation of the District, and certain financing costs related to the issuance of the BAN (defined below) and Bonds. The District will also retire its $5,585,000 Bond Anticipation Note, Series 2017 (the "BAN"), including the payment of principal of and interest thereon, with a portion of the proceeds of the sale of the Bonds. The District utilized the proceeds of the BAN to interim finance certain of the aforementioned facilities that it is financing with the proceeds of the sale of the Bonds. See "THE BONDS - Use and Distribution of Bond Proceeds."

Construction Costs	**District Share**
A. Developer Contribution Items (a)	
1. The Groves, Section 1 Water, Wastewater and Drainage	$ 672,472
2. The Groves, Section 2 Water, Wastewater and Drainage	715,598

3.	The Groves, Section 3 Water, Wastewater and Drainage	904,205
4.	The Groves, Section 4 Water, Wastewater and Drainage	496,757
5.	The Groves, Section 5 Water, Wastewater and Drainage	508,292
6.	The Groves, Section 6 Water, Wastewater and Drainage	392,185
7.	The Groves, Section 7 Water, Wastewater and Drainage	712,887
8.	The Groves, Section 8 Water, Wastewater and Drainage	668,083
9.	The Groves, Section 9 Water, Wastewater and Drainage	48,609
10.	The Groves, Section 5 and Kings Parkway Clearing and Grubbing	24,375
11.	The Groves, Section 6 Clearing and Grubbing	9,233
12.	The Groves, Section 7 Clearing and Grubbing	14,229
13.	The Groves, Section 8 Clearing and Grubbing	18,651
14.	Madera Run Parkway Street Dedication, Section 1 Clearing and Grubbing	11,480
15.	Madera Run Parkway up to 15 Acre School Site Clearing and Grubbing	12,050
16.	The Groves, Section 9 Clearing and Grubbing	46,462
17.	The Groves, Section 10 Clearing and Grubbing	19,539
18.	West Lake Houston Parkway Intersection Water, Wastewater and Drainage	49,893
19.	Madera Run Parkway Street Dedication, Section 1 Water, Wastewater and Drainage	472,569
20.	The Groves, Section 7 Fernbank Forest Culvert Crossing	407,151

21.	Engineering	905,319
22.	Materials Testing	194,808
23.	Stormwater Pollution Prevention Plans	211,794
	TOTAL DEVELOPER CONTRIBUTION ITEMS	$7,516,641

B. District Items

1.	Water Capital Cost Payments	$ 167,546
2.	Wastewater Capital Cost Payments	44,787
3.	Drainage Capital Cost Payments	120,367
4.	Future Wastewater Treatment Plant Lease Payments	260,400
	TOTAL DISTRICT ITEMS	$ 593,100
	TOTAL CONSTRUCTION COSTS	$8,109,741

Non-Construction Costs

1.	Legal Fees	$ 251,500
2.	Fiscal Agent Fees	211,500
3.	Interests Costs	
	a. Developer Interest (b)	1,009,864
	b. Bond Anticipation Note Interest	91,594
4.	Bond Discount	317,250
5.	Operating Costs	250,000
6.	Bond Issuance Expenses	111,761
7.	Bond Anticipation Note Issuance Expenses	135,852
8.	Bond Application Report	50,000
9.	Attorney General's Fee	9,500
10.	TCEQ Bond Issuance Fee	26,438
	TOTAL NON-CONSTRUCTION COSTS	$ 2,465,259
	TOTAL BOND ISSUE REQUIREMENT	**$10,575,000**

(a) The rules of the TCEQ require in certain instances that developers within a district subject to the jurisdiction of the TCEQ contribute to the construction program of such district an amount of money equal to thirty percent (30%) of the construction costs of certain water, sewer and drainage facilities in that district. The District requested an exemption from such developer participation requirement with respect to certain facilities being financed with portions of the proceeds of the sale of the Bonds on the basis of one of the criteria under TCEQ rules for such exemption. The TCEQ granted the request for such exemption in its Order authorizing the District to issue the Bonds.

(b) Represents interest owed to the Developer on advances of construction costs and engineering fees and operating expenses made on the District's behalf by the Developer. The actual amount of interest owed will be calculated at the lesser of (i) the net effective interest rate borne by the Bonds or (ii) the interest rate at which the Developer has borrowed funds.

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to reimburse the Developer for the costs of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations solely of the District and not of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any political subdivision or agency other than the District, are secured by the proceeds of an annual ad valorem tax, levied without legal limit as to rate or amount, upon all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends upon the District's ability to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below. Further, the collection of delinquent taxes owed the District, and the enforcement by a Registered Owner of the District's obligation to collect sufficient taxes may be costly and lengthy processes. See "Tax Collection Limitations" and "Registered Owners' Remedies and Bankruptcy" below and "THE BONDS - Source of Payment" and - "Registered Owners' Remedies."

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development of the District is directly related to the vitality of the residential housing industry. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, credit availability, energy availability and cost, and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. Further declines in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing and the value of existing homes. Recent changes in federal tax law limiting deductions for ad valorem taxes may adversely affect the demand for housing and the prices thereof. Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although, as is described in this Official Statement under the captions "DEVELOPMENT AND HOME CONSTRUCTION," and "THE DEVELOPER" (i) the development of 646 single-family residential lots is complete within the District, and the development of 208 additional single-family residential lots is underway in the District, (ii) the Builders are constructing homes within the District (see "BUILDERS"), and (iii) as of February 1, 2018, the District contained 452 single-family homes (including 99 homes under construction), the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date.

National Economy: There has been a downturn in new housing construction in the United States, resulting in a decline in national housing market values. Although, as is described in this Official Statement under the captions "DEVELOPMENT AND HOME CONSTRUCTION," and "THE DEVELOPER" (i) the development of 646 single-family residential lots is complete within the District, and the development of 208 additional single-family residential lots is underway in the District, (ii) the Builders are constructing homes within the District (see "BUILDERS"), and (iii) as of February 1, 2018, the District contained 99 single-family homes (including 452 homes under construction), the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date. The District cannot predict what impact, if any, a downturn in the local housing and financial markets or a continued downturn national housing and financial markets may have on the Houston market generally and the District specifically, or the maintenance of assessed values in the District.

Credit Markets and Liquidity in the Financial Markets: Interest rates and the availability of mortgage and development funding have a direct impact on development and homebuilding activity, particularly short-term interest rates at which developers are able to obtain financing for development costs and at which homebuilders are able to finance the construction of new homes for sale. Interest rate levels may affect the ability of a developer with undeveloped property to undertake and complete development activities within the District and of homebuilders to initiate the construction of new homes for sale. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued development and/or home construction within the District. In addition, since the District is located approximately 20 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and further decline in real estate and financial markets in the United States could adversely affect development and homebuilding plans in the District and restrain the growth of the District's property tax base.

Developer/Builder/Landowner Obligation to the District: LH Groves, LLC was the District's largest taxpayer in 2017 with undeveloped acreage, developed lots and lots under development the 2017 Assessed Valuation of which was $5,078,012, or approximately 5.13% of the District's 2017 tax roll. No other property owner owned property that in 2017 exceeded 2.71% of the District's 2017 tax roll. See "DEVELOPMENT AND HOME CONSTRUCTION," "THE DEVELOPER," "BUILDERS" and "TAX DATA - Principal 2017 Taxpayers." The ability of LH Groves LLC or any other principal taxpayer within the District to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. There is no commitment by or legal requirement of LH Groves LLC or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any of the Builders or any other home building company to proceed at any particular pace with the construction of homes in the District, and there is no restriction on any landowner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of home construction activity in the District. See "FUTURE DEVELOPMENT."

Maximum Impact on District Tax Rates

The value of the land and improvements currently located within the District will be a major determinant of the ability of the District to collect, and the willingness of District property owners to pay, ad valorem taxes levied by the District. After issuance of the Bonds, the Maximum Annual Debt Service Requirement on the Bonds and the Outstanding Bonds will be $1,265,750 (2047) and the Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds will be $1,199,139 (2019 through 2047, inclusive). The District's 2017 Assessed Valuation of property located within the District is $110,438,846. Assuming no increase to nor decrease from the 2017 Assessed Valuation and the issuance of no additional bonds by the District, tax rates of $1.21 and $1.15 per $100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively. The Estimated Valuation at January 1, 2018, of property located within the District supplied by the Appraisal District is $171,711,023. Assuming no increase to nor decrease from the Estimated Valuation at January 1, 2018, and the issuance of no additional bonds by the District, tax rates of $0.78 and $0.74 per $100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively.

The District levied a debt service tax of $0.69 per $100 of Assessed Valuation, plus a maintenance tax of $0.70 per $100 of Assessed Valuation for 2017. As the above calculations indicate, the 2017 debt service rate will not be sufficient to pay debt service on the Outstanding Bonds and the Bonds given taxable values in the District at the level of the Estimated Valuation at January 1, 2018 assuming a tax collection rate of 95%, no use of funds on hand, and the issuance of no additional bonds by the District. See "TAXING PROCEDURES." However, as is illustrated in this Official Statement under the caption "TAX DATA - Historical Values and Tax Collection History," the District has collected an average of 99.86% of its 2014 through 2016 tax levies as of February 28, 2018, and the 2017 tax levy is 96.58%

collected as of such date. Moreover, the District's Debt Service Fund balance was $860,035 as of March 1, 2018. Although neither Texas law nor the Bond Resolution requires that any specific amount be retained in the Debt Service Fund at any time, the District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Prior Bonds (see “APPENDIX B - INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS”). The District anticipates that the foregoing factors and future increases in taxable values which are expected to occur as a consequence of the construction of homes on the lots developed by the Developer will enable it to meet the debt service requirements on the Outstanding Bonds and the Bonds without increasing the debt service tax rate above the debt service tax rate which the District levied for 2017 - $0.69 per $100 of Assessed Valuation; however, the District can make no representation that the taxable property values will increase in the future or will maintain a value sufficient to support the aforementioned tax rate. See “THE BONDS - Source of Payment” and “TAXING PROCEDURES.” Increases in the District's tax rate to higher levels than the total $1.39 per $100 of Assessed Valuation rate which the District levied for 2017 may have an adverse impact upon future development of the District, the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District.

As is enumerated in this Official Statement under the caption “TAX DATA - Estimated Overlapping Taxes,” the aggregate of the 2017 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's 2017 rate, is $3.852975 per $100 of Assessed Valuation. Such aggregate rates are higher than the aggregate tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of many municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District.

Tax Collection Limitations

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 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, (c) market conditions affecting the marketability of taxable property within the District and limitation of the proceeds from a foreclosure sale of such property, (d) adverse effects on the proceeds of a foreclosure sale resulting from a taxpayer's limited right to redeem its foreclosed property as set forth below, or (e) insufficient foreclosure bids to satisfy the tax liens of all state and local taxing authorities which have parity liens on the property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Moreover, the value of the property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayers' right to redeem residential or agricultural use property within two (2) years of foreclosure and all other property within six (6) months of foreclosure. See “TAXING PROCEDURES.”

Registered Owners' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Resolution does not 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. Based on recent Texas court decisions, it is unclear whether §49.066 Texas Water Code, effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a 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 in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Registered Owners' Remedies."

Future Debt

The District reserved in the Bond Resolution the right to issue the remaining $226,695,000 in unlimited tax bonds authorized but unissued for waterworks, wastewater and drainage facilities and for refunding such bonds, the $131,380,000 for road facilities and refunding such bonds, the $40,700,000 for parks and recreational facilities and for refunding such bonds, and such additional bonds as may hereafter be approved by the voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Resolution. All of the remaining bonds described above for waterworks, wastewater and drainage facilities which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The issuance of such $226,695,000 in bonds for waterworks, wastewater and drainage facilities and $40,700,000 for parks and recreational facilities is also subject to TCEQ authorization. In addition to the components of the System that the District has financed with portions of the proceeds of the sale of the Prior Bonds, and is financing with portions of the proceeds of the sale of the Bonds (see "THE BONDS - Use and Distribution of Bond Proceeds" and "THE SYSTEM"), the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future, including its approximately $11,165,000 Unlimited Tax Bonds, Series 2019, which the District expects to issue in approximately the second quarter of 2019. See "THE BONDS - Issuance of Additional Debt" and "THE SYSTEM."

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Voters in the District have authorized $40,700,000 in unlimited tax bonds for park and recreational facilities. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park project and bonds by the TCEQ; and (a) approval of the bonds by the Attorney General of Texas. If the District does issue park and recreational facility bonds, the outstanding principal amount of any such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District.

The District's Engineer currently estimates that the aforementioned $226,695,000 authorized bonds which remain unissued will be adequate to finance the construction of all waterworks, wastewater, and drainage facilities and refunding of the same to serve all the remaining undeveloped portions of the District. See "Maximum Impact on District Tax Rates" above, "THE BONDS," "FUTURE DEVELOPMENT," "DEVELOPMENT AND HOME CONSTRUCTION" and "THE SYSTEM." If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See "THE BONDS - Issuance of Additional Debt."

The Effect of the Financial Institutions Act of 1989 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.

There has been no definitive judicial determination of the validity of these provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by state property tax law, and that, although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorney's fees, costs of abstract, and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent the FIRREA provisions are valid and applicable to any property in the District and 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.

Competitive Nature of Houston Residential Housing Market

The housing industry in the Houston metropolitan area, including the City of Houston, is very competitive, and the District can give no assurance that the building programs which are planned by the Builders or any future home builder(s) will be continued or completed. The respective competitive positions of the Developer and the Builders and any other developer(s) or home builder(s) which might attempt future development or home building projects in the District in the sale of developed lots or in the construction and sale of single-family residential units are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Continuing Compliance with Certain Covenants

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

Marketability

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

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/Greenhouse Gas 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 area ("HGB area")-Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties-was designated by the EPA in 2008 as a severe ozone nonattainment area under the 1997 "eight-hour" ozone standards ("the 1997 Ozone Standards"). In December 2015, the EPA determined that the HGB area has reached attainment under the 1997 Ozone Standards, and in May 2016, the EPA issued a proposed rule approving Texas's redesignation substitute demonstration for the HGB area. However, until the EPA issues a final ruling, the HGB area is still subject to anti-backsliding obligations and nonattainment new source review requirements associated with the 1997 Ozone Standards.

In 2008, the EPA lowered the ozone standard from 80 parts per billion ("ppb") to 75 ppb ("the 2008 Ozone Standard"), and designated the HGB area as a marginal ozone nonattainment area, effective July 20, 2012. Such nonattainment areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA's 2008 Ozone Standard is met. The HGB area did not reach attainment under the 2008 Ozone Standard by the 2016 deadline, and on September 21, 2016, the EPA proposed to reclassify the HGB area from marginal to moderate under the 2008 Ozone Standard. If reclassified, the HGB area's 2008 Ozone Standard attainment deadline must be met as expeditiously as practicable, but in any event no later than July 20, 2018. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA's 2008 Ozone Standard, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 ppb to 70 ppb ("the 2015 Ozone Standard"). On August 3, 2016, the TCEQ recommended to the EPA that all counties designated as nonattainment for the 2008 Ozone Standard be designated nonattainment for the 2015 Ozone Standard as well, which will impose additional ozone-reduction obligations on the HGB area. This could make it more difficult for the HGB area to demonstrate progress in reducing ozone concentration.

In order to comply with the EPA's ozone standards for the HGB area, the TCEQ has established a state implementation plan ("SIP") 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. It is possible that additional controls will be necessary to allow the HGB area to reach attainment 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) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act ("SDWA") and Environmental Protection Agency'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) on February 19, 2013. The TPDES Construction General Permit became effective on March 5, 2013, and 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 must establish the total maximum allowable daily load ("TMDL") of certain pollutants into the water bodies. The TMDLs that municipal utility districts may discharge may have an impact on the municipal utility district's ability to obtain and maintain TPDES permits.

On May 27, 2015, the EPA and the United States Army Corps of Engineers ("USACE") jointly issued a final version of the Clean Water Rule ("CWR"), which expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On June 27, 2017, the EPA and the USACE released a proposed rule rescinding the CWR, reinstating language in place before 2015 changes, and proposing the development of a revised definition of "waters of the United States." This proposed rule was published in the Federal Register on July 27, 2017, the comment period ended on September 28, 2017, and comments are currently under review by the agencies. On January 31, 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR by two years from the date the rule is published in the Federal Register. If the CWR is not rescinded, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the "waters of the United States."

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

Changes in Tax Legislation

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

Tropical Weather Events; Hurricane Harvey

The Houston area, including the District, is subject to occasional severe tropical 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.

Hurricane Harvey struck the Houston area on August 26, 2017, resulting in historic levels of rainfall. However, according to the District's Operator and Engineer, the District's System did not sustain any material damage and there was no interruption of water and sewer service. Further, according to the District's Operator, after investigation, although the District experienced street flooding, there was no apparent material wind or water damage to homes within the District. Hurricane Harvey could have a material impact on the Houston region's economy. The District cannot predict what impact, if any, Hurricane Harvey will have on the assessed value of homes within the District.

THE DISTRICT

General

The District is a municipal utility district created by an order of the TCEQ, dated March 3, 2009, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies totally within the extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also authorized to develop roads and parks and recreational facilities, including the issuance of bonds payable from taxes for such purposes. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the TCEQ and the voters of the District.

The District is required to observe certain requirements of the City of Houston, which limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City of Houston, and filed in the real property records of Harris County. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See “THE SYSTEM.”

Description

The District contains approximately 494.18 acres of land. The District is located entirely within Harris County, Texas, within the extraterritorial jurisdiction of the City of Houston, Texas (the “City”), and within the Humble Independent School District. See “APPENDIX A - LOCATION MAP.” The District is located in northeast Harris County, approximately 20 miles northeast of downtown Houston, approximately 5 miles north of the intersection of Beltway 8 and West Lake Houston Parkway and is bordered by undeveloped acreage to the south and west, Union Pacific Railroad and Harris County Municipal Utility District No. 412 to the east and Harris County Municipal Utility District No. 290 to the north. See “APPENDIX A - LOCATION MAP.”

LH Groves LLC owns approximately 498.78 acres of land located outside the boundaries of the District and has filed an annexation petition with the District requesting that such land be annexed into the District. The District has petitioned the City for consent to annex such land. The District makes no representation that the annexation will be consummated.

Management of the District

The District is governed by the Board of Directors, consisting of five directors. The Board of Directors has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections are held within the District on the first Saturday in May in even numbered years. The current members and officers of the Board, along with their respective terms of office, are listed below. None of the Directors currently resides within the District.

Name	Position	Term Expires in May
Raul Wong	President	2020
Charlotte Hale	Vice President	2022
Sharon Mensik	Assistant Vice President	2020
Lisa Lindley	Secretary	2022
Cathy Simandl	Assistant Secretary	2020

The District does not have a general manager or any other employee, but has contracted for services, as follows.

Tax Assessor/Collector - The District has engaged Assessments of the Southwest, Friendswood, Texas, as the District's Tax Assessor/Collector. According to Assessments of the Southwest, it currently serves approximately 135 taxing units as tax assessor/collector. The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Harris County Appraisal District and bills and collects such levy.

Consulting Engineers - The District has employed the firm of Brown & Gay Engineers, Inc., Houston, Texas, as Consulting Engineer in connection with the design and construction of the System.

Bookkeeper - The District has engaged Myrtle Cruz, Inc. as the District's Bookkeeper. According to Myrtle Cruz, Inc., it currently serves approximately 315 districts as bookkeeper.

Auditor - As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which financial statements are filed with the TCEQ. The District's auditor for the 2017 fiscal year is BKD, LLP, Certified Public Accountants, Houston, Texas. A copy of the District's audited financial statements for the year ended June 30, 2017, is included as “APPENDIX B” to this Official Statement.

Operator - Inframark, LLC is employed by the District as the general operator of the District's System. According to Inframark, LLC, it serves as operator of the systems of approximately 125 districts.

Bond Counsel and General Counsel - Allen Boone Humphries Robinson LLP, Houston, Texas (“Bond Counsel”) serves as Bond Counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Allen Boone Humphries Robinson LLP serves as general counsel to the District on matters other than the issuance of bonds.

Disclosure Counsel - McCall, Parkhurst & Horton L.L.P., Dallas, Texas, serves as Disclosure Counsel to the District. The fee to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds is contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor - The District has engaged Rathmann & Associates, L.P. as financial advisor (the “Financial Advisor”) to the District. The fee paid the Financial Advisor for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fee is contingent upon the sale and delivery of the Bonds. Rathmann & Associates, L.P. is an independent municipal advisor registered with the United States Securities and Exchange Commission (the “SEC”) and the Municipal Securities Rulemaking Board (the “MSRB”). Rathmann & Associates, L.P.’s SEC registration number is 867-00217 and its MSRB registration number is K0161. Rathmann & Associates, L.P.’s SEC registration Forms MA and MA-1's, which constitute Rathmann & Associates, L.P.’s registration filings, may be accessed through http://www.sec.gov/edgar/searchedgar/companysearch.html.

DEVELOPMENT AND HOME CONSTRUCTION

Land within the District is being developed as The Groves, a master-planned single-family residential community that as of February 1, 2018, contained a total of 452 single-family residences, including 99 residences under construction. See "BUILDERS" below.

The development of 646 single-family residential lots (approximately 217.4 total acres) is complete within the District. Such property has been subdivided as The Groves, Sections 1 through 12, 14, 15, 19 and 22. All of such lots have been provided water supply and distribution, wastewater collection and treatment and storm drainage/detention facilities and street paving. In addition, the Developer (defined below under the caption "DEVELOPER") has initiated the development of The Groves, Sections 16, 18 and 23 (139 total lots, approximately 36.8 total acres). The Developer anticipates the completion of the development of such sections, including street paving, by approximately April 2018.

The Developer owns approximately 82.1 acres of currently undeveloped land located within the District which are available for future development, approximately 75.1 acres of which are expected to be developed as future sections of The Groves (approximately 211 single-family residential lots) and approximately 7 acres of which are expected to be utilized for commercial purposes. Although the Developer has informed the District that it plans to complete the development of the remainder of its currently undeveloped land located in the District in the future, it is under no obligation to the District to develop any of such land. Therefore, the District cannot predict whether or when any of such property owned by the Developer will be developed. The Humble Independent School District ("HISD") owns approximately 45.1 acres of land located within the District which are not subject to taxation by the District on which HISD has constructed an elementary school and is constructing a middle school (completion anticipated by August 2018). The YMCA is expected to lease approximately 5.0 acres of the land owned by HISD on which baseball fields, playgrounds and pavilions with restrooms are planned. The balance of the land located in the District consists of acres located in street and drainage rights-of-way, District drainage areas or which are otherwise not available for future development. See "FUTURE DEVELOPMENT."

LH Groves LLC owns approximately 498.78 acres of land located outside the boundaries of the District and has filed an annexation petition with the District requesting that such land be annexed into the District. The District has petitioned the City for consent to annex such land. The District makes no representation that the annexation will be consummated. The District financed the culvert crossing at Union Pacific Railroad and Harris County Flood Control District Unit No. G103-55-99 to serve the District, Lift Station No. 1, Phase 1; wastewater treatment plant expansion; lease payments for future wastewater treatment plant expansion; The Groves Drainage Channel, Phase 1; The Groves offsite utilities, a surface water transmission line along West Lake Houston Parkway; a surface water transmission line within City of Houston water plant site; clearing and grubbing to serve The Groves drainage channel, Phase 1, The Groves off-site utilities, and The Groves, Sections 1 through 4; capital cost payments to Harris County Municipal Utility District No. 412 ("HCMUD No. 412") for participation in existing water, sewer and drainage facilities; among other items, with the proceeds of the sale of the Prior Bonds. The District will finance construction and acquisition of components of the System to serve The Groves, Sections 1 through 9, the West Lake Houston Parkway Intersection and Madera Run Parkway Street Dedication, Section 1; the cost of The Groves, Section 7 Fernbank Forest Culvert crossing; lease payments for future wastewater treatment plant; clearing and grubbing to serve Kings Parkway, Madera Run Parkway Street Dedication, Section 1, Madera Run Parkway to the 15-acre school site; and The Groves, Sections 5 through 10; and capital cost payments to HCMUD No. 412 for participation in existing water, sewer and drainage facilities, among other items, with the proceeds of the sale of the Bonds. The District will finance its cost of acquiring or constructing additional components of the System with the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately $11,165,000 Unlimited Tax Bonds, Series 2019, which the District expects to issue in approximately the second quarter of 2019. See "THE BONDS - Issuance of Additional Debt," "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."

The following table reflects the status of the residential development and home construction in the District as of February 1, 2018:

Residential Units

	Lots				Homes				
					Under Construction		Completed		
Subdivision	Fully Developed	Acres	Under Development	Acres	Sold *	Unsold	Sold *	Unsold	Totals
The Groves									
Section 1	41	24.1			0	0	37	3	40
Section 2	72	26.9			1	0	66	1	68
Section 3	41	15.6			4	1	32	2	39
Section 4	35	13.7			2	0	32	0	34
Section 5	58	15.2			3	2	46	0	51
Section 6	31	10.3			1	3	13	0	17
Section 7	47	15.4			4	2	13	1	20
Section 8	52	15.3			4	1	38	1	44
Section 9	54	23.9			16	3	21	0	40
Section 10	49	11.4			10	1	29	3	43
Section 11	36	10.0			0	4	0	1	5
Section 12	33	9.5			0	0	0	0	0
Section 14	19	5.4			0	0	0	0	0
Section 15	30	7.6			12	3	2	0	17
Section 16			40	9.1	0	0	0	0	0
Section 18			58	16.0	0	0	0	0	0
Section 19	20	5.3			5	1	5	1	12
Section 22	28	7.8			15	1	6	0	22
Section 23			41	11.7	0	0	0	0	0
Totals	646	217.4	139	36.8	77	22	340	13	452

* Includes homes sold and contracted for sale. Homes under construction for sale are, in some instances, subject to conditions of appraisal, loan application, approval, and inspection.

THE DEVELOPER

General

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be emplaced in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In some instances, the developer will be required to pay up to thirty percent (30%) of the cost of emplacing certain of the water, wastewater and drainage facilities in the utility district pursuant to the rules of the TCEQ. The District requested an exemption from such developer participation requirement with respect to the Bonds on the basis of one of the criteria under TCEQ rules for such exemption. The TCEQ granted the request for such exemption in its Order authorizing the District to issue the Bonds. The relative success or failure of a developer to perform such activities in development of the property within a utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on the developer's right to sell any or all of the land which the developer owns within a district. See “FUTURE DEVELOPMENT” below.

The Developer

The developer of The Groves is Ashlar Development LLC, a privately held real estate development company founded in 2017 and based in Dallas, Texas (“Developer” or “Ashlar”). Ashlar is developing The Groves on behalf of the owner of such property, LH Groves LLC. Ashlar, a Delaware limited liability company, was established by a private investment firm with experience in the acquisition, development and construction of residential communities across the U.S. and Europe, including several in Texas. Funds managed by such private investment firm acquired The Groves, through the entity LH Groves LLC, in February 2017 from the previous developer, Crescent Communities, LLC, which had owned the property since 2012.

The Developer is financing its acquisition and development activities within the District with the proceeds of a development loan from IBC Bank (“IBC”). The IBC Loan, which is dated February 2017, is a revolving line of credit secured by a first lien deed of trust against the property owned by LH Groves LLC in the District and an assignment of contract rights of LH Groves LLC to receivables to be received from the District. The IBC Loan provides that, in the event LH Groves LLC receives reimbursement of any such receivables assigned to it, 90% of such amount shall be applied to reduce the then outstanding balance of the loan and that the principal amount of the revolving credit represented by the note will be correspondingly reduced.

Chesmar Homes, Darling Homes, Lennar Homes, Highland Homes, Perry Homes, Taylor Morrison Homes, Trendmaker Homes, Village Builders, and Westin Homes (collectively, the “Builders”) have been and are expected to be principal builders of homes on lots developed by the Developer in the District. The Developer has contracted to sell developed lots in the District to the Builders, as is discussed under the caption “BUILDERS.”

The Developer has made no commitment for the payment of debt service on the Bonds. Only the owners of taxable property located in the District are legally responsible for the payment of ad valorem taxes to the District and other taxing authorities.

BUILDERS

As is described in this Official Statement under the caption “DEVELOPMENT AND HOME CONSTRUCTION,” as of February 1, 2018, the District contained 452 single-family residences, including 99 residences under construction. Current builders of homes located within the District are: Chesmar Homes, Darling Homes, Lennar Homes, Highland Homes, Perry Homes, Taylor Morrison Homes, Trendmaker Homes, Village Builders, and Westin Homes. Such homebuilding companies are collectively referred to herein as the “Builders.” See “DEVELOPMENT AND HOME CONSTRUCTION” for descriptions of the subdivisions located within the District in which the Builders are currently constructing homes. Lot sales contracts between the Developer and the Builders are option contracts with the sole remedy of the Developer upon an event of default by the Builder being retention of nominal option consideration. According to the Developer, homes currently being constructed by Chesmar Homes in the District range in size from approximately 1,891 square feet to 2,649 square feet of living area and in sales price from approximately $240,990 to $294,990; homes currently being constructed by Darling Homes in the District range in size from approximately 2,632 square feet to 3,653 square feet of living area and in sales price from $306,990 to $455,990; homes currently being constructed by Lennar Homes in the District range in size from approximately 1,857 square feet to 2,841 square feet of living area and in sales price from approximately $249,990 to $308,990; homes currently being constructed by Highland Homes in the District range in size from approximately 2,361 square feet to 3,791 square feet of living area and in sales price from approximately $329,990 to $437,990; homes currently being constructed by Perry Homes in the District range in size from approximately 2,187 square feet to 3,799 square feet of living area and in sales price from approximately $277,900 to $432,900; homes currently being constructed by Taylor Morrison Homes in the District range in size from approximately 3,265 square feet to 4,842 square feet of living area and in sales price from approximately $397,990 to $490,990; homes currently being constructed by Trendmaker Homes in the District range in size from approximately 2,127 square feet to 4,232 square feet of living area and in sales price from approximately $322,990 to $509,990; homes currently being constructed by Village

Builders in the District range in size from approximately 2,336 square feet to 3,226 square feet of living area and in sales price from approximately $267,990 to $390,990; and homes currently being constructed by Westin Homes in the District range in size from approximately 2,475 square feet to 2,986 square feet of living area and in sales price from approximately $296,990 to $342,990.

FUTURE DEVELOPMENT

As is described above under the caption "DEVELOPMENT AND HOME CONSTRUCTION," the development of approximately 217.4 acres of land located within the District into 646 single-family residential lots has been completed. In addition, the Developer has initiated the development of The Groves, Section 16 (40 lots, approximately 9.1 acres), The Groves, Section 18 (58 lots, approximately 16.0 acres) and The Groves, Section 23 (41 lots, approximately 11.7 acres). The Developer anticipates the completion of the development of such sections, including street paving, by approximately April 2018. The Developer also owns approximately 82.1 additional acres of land located within the District, approximately 75.1 acres of which are expected to be developed as future sections of The Groves (approximately 211 single-family residential lots) and approximately 7 acres of which are expected to be utilized for commercial purposes. Since the Developer has no obligation to the District to undertake the development of any future section of The Groves according to any particular timetable or at all, the District cannot represent that the development of any future section of The Groves will be undertaken. The Humble Independent School District ("HISD") owns approximately 45.1 acres of land located within the District which are not subject to taxation by the District on which HISD has constructed an elementary school and is constructing a middle school (completion anticipated by August 2018). The YMCA is expected to lease approximately 5.0 acres of land owned by HISD on which baseball fields, playgrounds and pavilions with restrooms are planned. The balance of the land located within the District is contained within various street and/or drainage easements, rights-of-way, lakes and stormwater detention ponds, District plant sites, or is otherwise not available for future development.

LH Groves LLC owns approximately 498.78 acres of land located outside the boundaries of the District and has filed an annexation petition with the District requesting that such land be annexed into the District. The District has petitioned the City for consent to annex such land. The District makes no representation that the annexation will be consummated.

If any undeveloped portion of the District is eventually developed, additions to the District's System required to provide service to such undeveloped acreage may be financed by future issues of the District's bonds. The District financed the culvert crossing at Union Pacific Railroad and Harris County Flood Control District Unit No. G103-55-99 to serve the District, Lift Station No. 1, Phase 1; wastewater treatment plant expansion; lease payments for future wastewater treatment plant expansion; The Groves Drainage Channel, Phase 1; The Groves offsite utilities, a surface water transmission line along West Lake Houston Parkway; a surface water transmission line within City of Houston water plant site; clearing and grubbing to serve The Groves drainage channel, Phase 1, The Groves off-site utilities, and The Groves, Sections 1 through 4; capital cost payments to Harris County Municipal Utility District No. 412 ("HCMUD No. 412") for participation in existing water, sewer and drainage facilities; among other items, with the proceeds of the sale of the Prior Bonds. The District will finance construction and acquisition of components of the System to serve The Groves, Sections 1 through 9, the West Lake Houston Parkway Intersection and Madera Run Parkway Street Dedication, Section 1; the cost of The Groves, Section 7 Fernbank Forest Culvert crossing; lease payments for future wastewater treatment plant; clearing and grubbing to serve Kings Parkway, Madera Run Parkway Street Dedication, Section 1, Madera Run Parkway to the 15-acre school site; and The Groves, Sections 5 through 10; and capital cost payments to HCMUD No. 412 for participation in existing water, sewer and drainage facilities, among other items, with the proceeds of the sale of the Bonds. The District will finance its cost of acquiring or constructing additional components of the System with the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately $11,165,000 Unlimited Tax Bonds, Series 2019, which the District expects to issue in approximately the second quarter of 2019. See "THE BONDS - Issuance of Additional Debt" and "INVESTMENT CONSIDERATIONS - Future Debt"

Based on present engineering cost estimates and on development plans supplied by the Developer, in the opinion of the District's consulting engineer, Brown & Gay Engineers, Inc. (the "Engineer"), the $226,695,000 authorized but unissued bonds will be adequate to finance the extension of the System to serve all of the remaining undeveloped portions of the District. See "DEVELOPMENT AND HOME CONSTRUCTION" and "THE SYSTEM."

AERIAL PHOTOGRAPH OF THE DISTRICT
(taken February 2018)

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken February 2018)

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken February 2018)




DISTRICT DEBT

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements on the Outstanding Bonds, plus the principal and interest requirements of the Bonds.

Year Ending 12-31	Current Total Debt Service	The Bonds Principal	The Bonds Interest	Total Debt Service
2018	$ 462,125			$ 462,125
2019	565,225		$ 554,158	1,119,383
2020	566,225		415,619	981,844
2021	566,863	$ 205,000	415,619	1,187,481
2022	571,113	215,000	404,088	1,190,200
2023	574,800	220,000	391,994	1,186,794
2024	572,900	235,000	379,619	1,187,519
2025	575,600	245,000	366,400	1,187,000
2026	577,795	250,000	352,619	1,180,414
2027	579,445	260,000	338,556	1,178,001
2028	580,589	275,000	323,931	1,179,520
2029	586,176	280,000	310,181	1,176,358
2030	585,914	295,000	301,431	1,182,345
2031	589,889	305,000	292,213	1,187,101
2032	588,301	320,000	282,300	1,190,601
2033	591,145	335,000	271,900	1,198,045
2034	592,545	350,000	260,594	1,203,139
2035	593,345	365,000	248,781	1,207,126
2036	598,545	375,000	236,006	1,209,551
2037	597,945	395,000	222,881	1,215,826
2038	596,500	415,000	209,056	1,220,556
2039	599,858	430,000	194,013	1,223,870
2040	602,683	450,000*	178,425	1,231,108
2041	604,720	470,000*	162,113	1,236,833
2042	605,670	490,000*	145,075	1,240,745
2043	605,818	510,000*	127,313	1,243,130
2044	610,163	530,000*	108,188	1,248,350
2045	608,500	560,000*	88,313	1,256,813
2046	617,313	575,000*	67,313	1,259,625
2047		1,220,000*	45,750	1,265,750
	$16,967,710	$10,575,000	$7,694,449	$35,237,153

Average Annual Requirements (2019-2047) $1,199,139
Maximum Annual Requirement (2047) $1,265,750

* Represents mandatory sinking fund payments on Term Bonds.

Bonded Indebtedness

2017 Assessed Valuation (As of January 1, 2017) See "TAX DATA" and "TAXING PROCEDURES"		$110,438,846(a)
Estimated Valuation at January 1, 2018 (As of January 1, 2018) See "TAX DATA" and "TAXING PROCEDURES"		$171,711,023(b)
Direct Debt: Outstanding Bonds		$ 10,050,000
The Bonds		$ 10,575,000(c)
Total		$ 20,625,000
Estimated Overlapping Debt		$ 5,306,273
Direct and Estimated Overlapping Debt		$ 25,931,273(c)
Direct Debt Ratios		
: as a percentage of 2017 Assessed Valuation		18.68%
: as a percentage of Estimated Valuation at January 1, 2018		12.01%
Direct and Estimated Overlapping Debt Ratios		
: as a percentage of 2017 Assessed Valuation		23.48%
: as a percentage of Estimated Valuation at January 1, 2018		15.10%
Debt Service Fund Balance at March 1, 2018		$ 860,035(d)
General Fund Balance Estimated as of Delivery of the Bonds		$ 841,913(e)
Average Percentage of Total Tax Collection (2014-2016 Levies) As of February 28, 2018.		99.86%
Percentage of Total Tax Collections 2017 Levy As of February 28, 2018. In process of collection.		96.58%
2017 Tax Rate Per $100 of Assessed Valuation		
Debt Service Tax	$0.69	
Maintenance Tax	0.70	
Total		$1.39(e)(f)

(a) As of January 1, 2017. All property located in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed valuation as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). See "TAXING PROCEDURES" and "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."

(b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of January 1, 2018, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2017, through December 31, 2017. The ultimate assessed valuation of such additions to the District's tax roll resulting from development and construction activity from January 1, 2017, through December 31, 2017, may vary significantly from this estimate when the Appraisal Review Board certifies the valuation of District property for the purpose of determining the District's 2018 tax roll, which will be based on the valuation of District property as of January 1, 2018.

(c) In addition to the components of the System that the District has financed with portions of the proceeds of the sale of the Prior Bonds, and is financing with portions of the proceeds of the sale of the Bonds (see "THE BONDS - Use and Distribution of Bond Proceeds" and "THE SYSTEM"), the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future, including its approximately $11,165,000 Unlimited Tax Bonds, Series 2019, which the District expects to issue in approximately the second quarter of 2019. See "THE BONDS - Issuance of Additional Debt," "INVESTMENT CONSIDERATIONS - Future Debt," and "THE SYSTEM."

(d) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund. Such sum gives effect to the payment by the District of its debt service requirements that were due on March 1, 2018. The District's remaining debt service payments for 2018, consisting of principal of and interest on the Outstanding Bonds, are due on September 1, 2018, and total $278,563. The District's initial debt service payment on the Bonds, consisting of a ten-month interest payment due thereon, is due on March 1, 2019.

(e) $785,463 General Fund balance at March 1, 2018, plus approximately $56,450 to be deposited in the General Fund from the proceeds of the sale of the Bonds.

(f) The District levied a debt service tax rate of $0.69 per $100 of Assessed Valuation and a maintenance tax of $0.70 per $100 of Assessed Valuation for 2017. Therefore, the District's combined total tax for 2017 is $1.39 per $100 of Assessed Valuation. As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2017 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's 2017 rate, is $3.852975. Such aggregate levies are higher than the aggregate tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of many municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District. See "TAXING PROCEDURES" and "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."

Estimated Direct and Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas, or other available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

	Debt as of	Estimated Overlapping	
Taxing Jurisdiction (i)	January 15, 2018	Percent	Amount
Harris County*	$2,208,674,360	0.02519%	$ 556,334
Harris County Department of Education	6,780,000	0.02519	1,708
Harris County Flood Control District	83,075,000	0.02519	20,925
Harris County Hospital District	61,595,000	0.02519	15,515
Port of Houston Authority	638,829,397	0.02519	160,912
Humble Independent School District	599,950,000	0.69495	4,169,376
Lone Star College System	638,829,397	0.05972	381,503
Total Estimated Overlapping Debt			$ 5,306,273
The District (the Bonds and the Remaining Outstanding Bonds)			20,625,000
Total Direct & Estimated Overlapping Debt			$25,931,273

* The Harris County Toll Road Authority bonds are considered to be self-supporting, and are not included in this schedule.

Debt Ratios

	% of 2017 Assessed Valuation	% of Estimated Valuation at January 1, 2018
Direct Debt	18.68%	12.01%
Direct and Estimated Overlapping Debt	23.48%	15.10%

TAX DATA

Debt Service Tax

All taxable property within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds and any future tax-supported bonds that may be issued by the District from time to time. The Board of Directors of the District has in its Bond Resolution covenanted to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds (see "THE BONDS" and "INVESTMENT CONSIDERATIONS"). The actual rate of such tax is determined annually as a function of the District's tax base, its debt service requirements, and available funds. The District levied a debt service tax in 2017 of $0.69 per $100 of Assessed Valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electorate. On November 5, 2013, the District voters authorized the levy of such a maintenance tax in an amount not to exceed $1.50 per $100 of Assessed Valuation. Such tax is levied in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which may be issued in the future. The District levied a maintenance tax in 2017 of $0.70 per $100 of Assessed Valuation.

Historical Values and Tax Collection History

The following statement of tax collections sets forth in condensed form the historical Assessed Valuation and tax collections of the District. Such summary has been prepared for inclusion herein based upon information obtained from District records. Reference is made to such records, including the District's annual audited financial statements, for more complete information.

				% Collections	
Tax Year	Assessed Valuation	Tax Rate (a)	Adjusted Levy	Current & Prior Years (b)	Year Ended 9/30
2014	$ 7,008,348	$1.39(c)	$ 97,416	100.00%	2015
2015	17,605,128	1.39(c)	244,711	100.00	2016
2016	68,278,724	1.39	949,074	99.57	2017
2017	110,438,846	1.39	1,376,062	96.58(d)	2018

(a) Per $100 of Assessed Valuation.
(b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through February 28, 2018. The amount of tax collected for each levy on a current basis (by September 30 of the year following each respective annual levy) is not reflected in this statement.
(c) Maintenance tax only.
(d) As of February 28, 2018. In process of collection.

Tax Rate Distribution

	2017	2016	2015	2014
Debt Service	$0.69	$0.69	$0.00	$0.00
Maintenance	0.70	0.70	1.39	1.39
Total	$1.39	$1.39	$1.39	$1.39

Principal 2017 Taxpayers

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the assessed valuation of such property as of January 1, 2017. The information reflects the composition of property ownership reflected on the District's 2017 tax roll. See "DEVELOPER."

Taxpayer	Type of Property	Assessed Valuation 2017 Tax Roll	% of 2017 Tax Roll
LH Groves, LLC	Lots and Land	$ 5,078,012	5.13%
Perry Homes, LLC	Lots and Homes	2,680,241	2.71
Trendmaker Homes, Inc.	Lots and Homes	2,557,591	2.58
Lennar Homes of Texas	Lots and Homes	1,273,948	1.29
Taylor Morrison of Texas, Inc.	Lots and Homes	1,098,070	1.11
Westin Homes & Properties, L.P.	Lots and Homes	978,785	0.99
Crescent LHTX 2012 LLC	Land	831,543	0.84
Darling Homes of Texas, LLC	Lots and Homes	710,825	0.72
Lori & Aaron Aungst	Lot and Home	505,674	0.51
Weekley Homes, LLC	Lots and Homes	488,909	0.49
		$16,203,598	16.37%

Analysis of Tax Base

The following table illustrates the composition of property located within the District during the past four years.

Type of Property	2017 Assessed Valuation	%	2016 Assessed Valuation	%
Land	$38,334,707	38.72%	$33,407,514	48.93%
Improvements	67,232,596	67.91	37,622,786	55.10
Personal Property	605,860	0.61	708,944	1.04
Exemptions	(7,175,901)	(7.25)	(3,460,520)	(5.07)
Total	$110,438,846	100.00%	$68,278,724	100.00%

Type of Property	2015 Assessed Valuation	%	2014 Assessed Valuation	%
Land	$15,274,363	86.76%	$9,769,507	139.40%
Improvements	2,418,952	13.74	0	0.00
Personal Property	13,079	0.07	0	0.00
Exemptions	(101,266)	(0.58)	(2,761,159)	(39.40)
Total	$17,605,128	100.00%	$7,008,348	100.00%

Tax Exemption

The District does not currently grant any tax exemptions.

Additional Penalties

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

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per $100 of Assessed Valuation which would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2017 Assessed Valuation or the Estimated Valuation at January 1, 2018. The calculations also assume collection of 95% of taxes levied, no use of District funds on hand, and the sale of no additional bonds by the District.

Average Annual Debt Service Requirements (2019-2047)	$1,199,139
Tax Rate of $1.15 on the 2017 Assessed Valuation ($110,438,846) produces	$1,206,544
Tax Rate of $0.74 on the Estimated Valuation at January 1, 2018 ($171,711,023) produces	$1,207,128
Maximum Annual Debt Service Requirement (2047)	$1,265,750
Tax Rate of $1.21 on the 2017 Assessed Valuation ($110,438,846) produces	$1,269,495
Tax Rate of $0.78 on the Estimated Valuation at January 1, 2018 ($171,711,023) produces	$1,272,379

The District levied a debt service tax of $0.69 per $100 of Assessed Valuation and a maintenance tax of $0.70 per $100 of Assessed Valuation for 2017. Therefore, the District's combined total tax for 2017 is $1.39 per $100 of Assessed Valuation. As the above table indicates, the 2017 debt service rate will not be sufficient to pay debt service on the Outstanding Bonds and the Bonds given taxable values in the District at the level of the Estimated Valuation at January 1, 2018, assuming a tax collection rate of 95%, no use of funds on hand, and the issuance of no additional bonds by the District. However, as is illustrated in this Official Statement under the caption “TAX DATA - Historical Values and Tax Collection History,” the District has collected an average of 99.86% of its 2014 through 2016 tax levies as of February 28, 2018, and its 2017 levy is 96.58% collected as of such date. Moreover, the District's Debt Service Fund balance was $860,035 as of March 1, 2018. Although neither Texas law nor the Bond Resolution requires that any specific amount be retained in the Debt Service Fund at any time, the District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Prior Bonds (see “APPENDIX B - INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS”). The District anticipates that the foregoing factors and future increases in taxable values which are expected to occur as a consequence of the construction of homes on the lots developed by the Developer will enable it to meet the debt service requirements on the Outstanding Bonds and the Bonds without increasing the debt service tax rate above the debt service tax rate which the District levied for 2017 - $0.69 per $100 of Assessed Valuation; however, the District can make no representation that the taxable property values will increase in the future or will maintain a value sufficient to support the aforementioned tax rate. See “THE BONDS - Source of Payment” and “TAXING PROCEDURES.” In addition to the components of the System that the District has financed with portions of the proceeds of the sale of the Prior Bonds, and is financing with portions of the proceeds of the sale of the Bonds (see “THE BONDS - Use and Distribution of Bond Proceeds” and “THE SYSTEM”), the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future, including its approximately $11,165,000 Unlimited Tax Bonds, Series 2019, which the District expects to issue in approximately the second quarter of 2019 See “TAXING PROCEDURES” and “INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments.”

Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2017 taxes levied upon property located within the District, plus the District's 2017 tax rate. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded indebtedness of the District and of such other jurisdictions (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Taxing Jurisdiction	2017 Tax Rate/$100
Harris County	$0.418010
Harris County Department of Education	0.005195
Harris County Flood Control District	0.028310
Port of Houston Authority	0.012560
Harris County Hospital District	0.171100
Humble Independent School District	1.520000
Lone Star College System	0.107800
Harris County Emergency Service District #46	0.100000
Harris County Emergency Service District #1	0.100000
The District*	1.390000
	$3.852975

* The District levied a total tax of $1.39 per $100 of Assessed Valuation for 2017, consisting of a debt service tax of $0.69 per $100 of Assessed Valuation and a maintenance tax of $0.70 per $100 of Assessed Valuation.

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 sufficient amount to pay the principal of and interest on the Bonds, the 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 above under "THE BONDS - Source of Payment." Under Texas law, the Board is also authorized to levy and collect annual ad valorem taxes for the operation and maintenance of the District and the System and for the payment of certain contractual obligations. See "TAX DATA - Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code"), specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State 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 values established by the appraisal district. The Harris County Appraisal District (the "Appraisal District") has the responsibility of appraising property for all taxing units within Harris County, including the District. Such appraisal values will be subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The appraisal rolls, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate.

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; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of $5,000 to $12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, effective January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, effective January 1, 2018, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

Freeport Goods Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the 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

The City of Houston and Harris County may designate all or part of the District as a reinvestment zone, and the District, Harris County, and (after annexation of the District) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

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

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

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

District and Taxpayer Remedies

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: (a) the valuation of property within the District as of the preceding January 1, and (b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. However, a person who is (i) 65 years of age or older, (ii) disabled or (iii) qualifies as a disabled veteran under Texas law is 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. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead, 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. In addition, taxing entities are required by the Property Tax Code to accept four equal installment payments without penalty and interest for taxpayers whose damaged property is in a declared disaster area as long as the taxpayer pays at least one-fourth of the tax bill before the delinquency date.

Rollback of Operation and Maintenance Tax Rate

The qualified voters of the District have the right to petition for a rollback of the District’s operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year’s debt service and contract tax rates plus 1.08 times the previous year’s operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

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 in 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 each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units (see “TAX DATA - Estimated Overlapping Taxes”). A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of 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. 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 (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts.

THE SYSTEM

Regulation

According to the District's Engineer, the System has been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities, including, among others, the TCEQ, the City of Houston, Harris County, and the Harris County Flood Control District. The construction and installation of the facilities must be made in accordance with the standards and specifications of such entities and are subject to inspection by each such entity. The total number of equivalent single-family connections (“ESFCs”) currently projected for the District at the full development of its current area of approximately 494.2 acres of land is 1,091 with a total estimated population of 3,818. If the pending annexation of 498.78 acres of land is completed, the total number of ESFCs for the District is expected to be approximately 2,805.

Description

The System presently serves the 646 fully developed single-family residential lots located in Groves, Sections 1 through 12, 14, 15, 19 and 22 in the District as is enumerated in this Official Statement under the caption “DEVELOPMENT AND HOME CONSTRUCTION.” The District financed the culvert crossing at Union Pacific Railroad and Harris County Flood Control District Unit No. G103-55-99 to serve the District, Lift Station No. 1, Phase 1; wastewater treatment plant expansion; lease payments for future wastewater treatment plant expansion; The Groves Drainage Channel, Phase 1; The Groves offsite utilities, a surface water transmission line along West Lake Houston Parkway; a surface water transmission line within City of Houston water plant site; clearing and grubbing to serve The Groves drainage channel, Phase 1, The Groves off-site utilities, and The Groves, Sections 1 through 4; capital cost payments to Harris County Municipal Utility District No. 412 (“HCMUD No. 412") for participation in existing water, sewer and drainage facilities; among other items, with the proceeds of the sale of the Prior Bonds. The District will finance construction and acquisition of components of the System to serve The Groves, Sections 1 through 9, the West Lake Houston Parkway Intersection and Madera Run Parkway Street Dedication, Section 1; the cost of The Groves, Section 7 Fernbank Forest Culvert crossing; lease payments for future wastewater treatment plant; clearing and grubbing to serve Kings Parkway, Madera Run Parkway Street Dedication, Section 1, Madera Run Parkway to the 15-acre school site; and The Groves, Sections 5 through 10; and capital cost payments to HCMUD No. 412 for participation in existing water, sewer and drainage facilities, among other items, with the proceeds of the sale of the Bonds. The District will finance its cost of acquiring or constructing additional components of the System with the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately $11,165,000 Unlimited Tax Bonds, Series 2019, which the District expects to issue in approximately the second quarter of 2019. See “THE BONDS - Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS - Future Debt”

Wastewater Treatment

The District and Harris County Municipal Utility District No. 412 have entered into an agreement to share capacity in and costs of a wastewater treatment plant and water supply facilities located within HCMUD No. 412's boundaries. All costs of the provision of wastewater treatment capacity will be shared by the District and HCMUD No. 412 on a pro-rata basis based upon the number of connections of each district served by the wastewater treatment plant. The District and

HCMUD No. 412 currently provide wastewater treatment with an interim facility which contains 640,000 gallons-per-day ("g.p.d.") of capacity, the acquisition of a portion of which the District financed with a portion of the proceeds of the sale of the Outstanding Bonds and the acquisition of a portion of which the District is financing with a portion of the proceeds of the sale of the Bonds. According to the District's Engineer, assuming usage of 250 g.p.d. per ESFC, the District's capacity in the wastewater treatment plant is sufficient to provide service to 2,560 ESFCs.

Water Supply

In accordance with the Water Facility Cost Sharing Agreement between HCMUD No. 412 and the District, the District owns an equitable interest in water supply facilities located within HCMUD No. 412's boundaries. The sources of water are groundwater from one well at the water plant as well as surface water capacity of 166,667 g.p.d. provided by the City of Houston pursuant to the "City of Houston Water Supply and Groundwater Reduction Plan Wholesale Agreement for Regulatory Area 3 of the Harris-Galveston Coastal Subsidence District" dated February 14, 2007, including capacity increase approval letters from the City of Houston dated January 26, 2009, May 24, 2011, March 11, 2015, and March 31, 2016. HCMUD No. 412 submitted another capacity increase request on January 17, 2017. The water supply facilities include the aforementioned well, the capacity of which totals 750 gallons-per-minute ("g.p.m."), 5,700 g.p.m. in booster pump capacity, two 15,000 gallon hydropneumatic tanks, and two 285,000 gallon ground storage tanks. According to the District's Engineer, the District's capacity in the aforementioned water supply facilities includes sufficient capacity to provide service to 2,500 ESFCs. All costs of production of water are shared by the District and HCMUD No. 412 on a pro-rata basis based upon the number of connections of each district to the water supply facilities. The District financed the acquisition of its capacity in such water facilities with a portion of the proceeds of the Outstanding Bonds and is financing the acquisition of additional capacity with a portion of the proceeds of the sale of the Bonds.

Drainage Improvements

Storm water drainage for the District is collected by a network of internal collection facilities that drain into Harris County Flood Control District Channel (G103-55-99), which ultimately empties into Lake Houston on the east side of the District. The District has constructed a drainage channel and storm water quality facilities. The District acquired its pro-rata share of the drainage channel owned by HCMUD No. 412 with a portion of the proceeds of the Outstanding Bonds and is financing the acquisition of its pro-rata share of such facilities with a portion of the proceeds of the sale of the Bonds. All costs of the drainage channel will be shared by the District and HCMUD No. 412 on a pro-rata basis based upon the number of connections served by the joint drainage facilities.

100-Year Flood Plain

According to Federal Emergency Management Agency ("FEMA") Flood Insurance Rate Map ("FIRM") panel 48201C0510L, revised June 18, 2007, no land contained within the District is located within the official 100-year flood plain.

LEGAL MATTERS

Legal Opinions

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, and all taxable property within the District is subject to the levy of ad valorem taxes to pay the same, without legal limitation as to rate or amount, based upon examination of a transcript of certified proceedings held incident to the issuance and authorization of the Bonds, and the approving legal opinion of Allen Boone Humphries Robinson LLP, Bond Counsel for the District, to a like effect. Such opinions express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. Bond Counsel's opinion also will address the matters described below under "TAX MATTERS."

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for information under the subheadings "Book-Entry-Only System" and "Use and Distribution of Bond Proceeds"), "THE DISTRICT - General", and - Management of the District - Bond Counsel and General Counsel," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law, the provisions of the documents referred to therein and conforms to the provisions of the Order of the TCEQ approving the Bonds and to the requirements of the City of Houston with respect to the sale of the Bonds. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein, other than the matters discussed immediately above.

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

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, that to their knowledge, no litigation is pending or threatened affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

No Material Adverse Change

The obligations of the Underwriters to take up 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 financial condition of the District subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of sale. The rating of the insurer's creditworthiness by any rating agency does not and will not in any manner affect the District's financial condition, and thus any change to such rating, including a downgrade thereof, at any time, does not and will not constitute a change, material or otherwise, in the District's financial condition, and therefore cannot be a basis for termination by the Underwriter of its obligations to take up and pay for the Bonds.

TAX MATTERS

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

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

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

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Developer, the Tax Assessor/Collector and other sources believed to be reliable; however, no representation is made by the District as to the accuracy or completeness of the information contained herein, except as described below under "Certification as to Official Statement." The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The District's financial statements as of and for the year ended June 30, 2017, were audited by BKD, LLP and have been included herein as "APPENDIX B" BKD, LLP has agreed to the publication of its audit opinion on the District's financial statements in this Official Statement. BKD, LLP was not requested to perform any updating procedures subsequent to the date of its audit report on the June 30, 2017, financial statements.

Experts

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled "THE BONDS - Use and Distribution of Bond Proceeds," "THE DISTRICT" and "THE SYSTEM" has been provided by Brown & Gay Engineers, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by Assessments of the Southwest and the Appraisal District. Such information has been included herein in reliance upon Assessments of the Southwest's authority as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of tax assessing.

Certification as to Official Statement

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

Updating of Official Statement

If, subsequent to the date of 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 Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser notifies the District in writing on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB") or any successor to its functions as a repository through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data annually. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "DISTRICT DEBT," "TAX DATA," and in "APPENDIX B - Independent Auditor's Report and Financial Statements." The District will update and provide this information within six months after the end of each of its fiscal years ending in and after 2018.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, 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 June 30. Accordingly, it must provide updated information by December 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination 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 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 SEC Rule 15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain 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 to 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 SEC Rule 15c2-12, taking into account any amendments or interpretations of SEC Rule 15c2-12to 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 SEC Rule 15c2-12or 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 Underwriter 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

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 504 as of the date shown on the first page hereof.

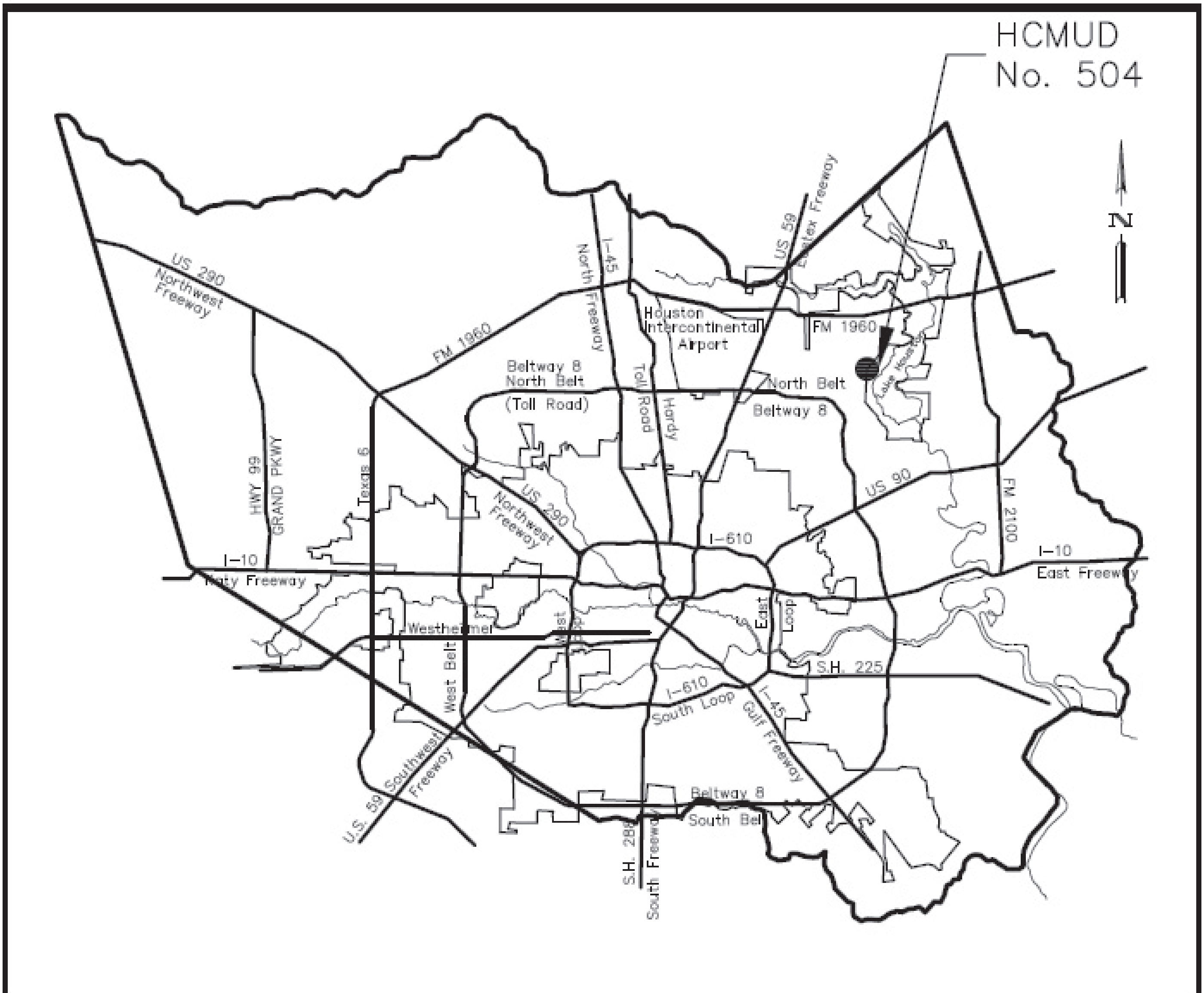
/s/ Raul Wong
President, Board of Directors
Harris County Municipal
Utility District No. 504

ATTEST:

/s/ Lisa Lindley
Secretary, Board of Directors
Harris County Municipal
Utility District No. 504

APPENDIX A

LOCATION MAP



HCMUD No. 504 LOCATION MAP

APPENDIX B

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 504

HARRIS COUNTY, TEXAS

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2017

Harris County Municipal Utility District No. 504

Harris County, Texas

Independent Auditor's Report and Financial Statements

June 30, 2017

BKD LLP
CPAs & Advisors

Harris County Municipal Utility District No. 504

June 30, 2017

Contents

BKD LLP
CPAs & Advisors
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Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 504
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities of Harris County Municipal Utility District No. 504 (the District), which are comprised of a statement of net position as of June 30, 2017, and a statement of activities for the year then ended; as well as the accompanying financial statements of each major fund, which for governmental funds are comprised of a balance sheet as of June 30, 2017, and a statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 June 30, 2017, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. 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 basic financial statements as a whole. The accompanying other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
November 13, 2017

Harris County Municipal Utility District No. 504

Management's Discussion and Analysis

June 30, 2017

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

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

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	2017	2016
Current and other assets	$ 1,826,355	$ 921,278
Capital assets	16,744,742	11,393,008
Total assets	$ 18,571,097	$ 12,314,286
Long-term liabilities	$ 29,154,365	$ 19,665,913
Other liabilities	437,265	284,810
Total liabilities	29,591,630	19,950,723
Net position:		
Net investment in capital assets	(11,825,483)	(7,648,456)
Restricted	618,812	8
Unrestricted	186,138	12,011
Total net position	$ (11,020,533)	$ (7,636,437)

The total net position of the District decreased by $3,384,096, or about 44 percent. The decrease in net position is primarily related to the conveyance of capital assets to another governmental entity for maintenance, as well as developer advances which are shown as long-term liabilities in the government-wide financial statements.

Summary of Changes in Net Position

	2017	2016
Revenues:		
Property taxes	$ 979,275	$ 212,558
Charges for services	209,379	150,394
Other revenues	523,593	209,209
Total revenues	1,712,247	572,161

Harris County Municipal Utility District No. 504
Management's Discussion and Analysis (Continued)
June 30, 2017

Summary of Changes in Net Position (Continued)

	2017	2016
Expenses:		
Services	$ 1,195,452	$ 1,106,258
Conveyance of capital assets	2,580,488	1,746,139
Purchase of capacity	336,745	178,367
Depreciation	343,753	249,109
Debt service	639,905	522,030
Total expenses	5,096,343	3,801,903
Change in net position	(3,384,096)	(3,229,742)
Net position, beginning of year	(7,636,437)	(4,406,695)
Net position, end of year	$ (11,020,533)	$ (7,636,437)

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended June 30, 2017, were $1,472,701, an increase of $733,665 from the prior year.

The general fund's fund balance increased by $170,685. This was primarily due to property taxes, service revenues and developer contributions exceeding service operation expenditures.

The debt service fund's fund balance increased by $220,326, primarily due to property tax revenues generated exceeding interest and fees on the District's bonded indebtedness.

The capital project fund's fund balance increased by $342,654. This was primarily due to proceeds received from the sale of the District's Series 2017 bonds being greater than capital outlay expenditures and debt issuance costs, as well as the recovery of capital costs received.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to property tax and water revenues, tap connection and inspection fee revenues, and repair and maintenance expenditures being greater than anticipated and purchased services expenditures being less than anticipated. In addition, capital outlay expenditures and debt issuance costs were not included in the budget. The fund balance as of June 30, 2017, was expected to be $11,316 and the actual end-of-year fund balance was $182,001.

Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

	2017	2016
Land and improvements	$ 5,599,909	$ 3,031,081
Water facilities	2,729,925	1,931,683
Wastewater facilities	4,661,496	3,405,248
Drainage facilities	1,203,907	1,231,905
Roads	2,549,505	1,793,091
Total capital assets	$ 16,744,742	$ 11,393,008

During the current year, additions to capital assets were as follows:

Water and sewer facilities to serve The Groves, Sections 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 15, 19; The Groves offsite utilities; and The Groves offsite 18-inch sanitary trunk and 16-inch water lines	$ 2,226,555
Clearing and grubbing to serve The Groves, Sections 1, 11, 15, 19 and 22; offsite utilities; detention facilities; drainage ditch along Union Pacific Railroad, Sections 3, 4 and 5 drainage reserves, Phases 1 and 2; and Madera Run Parkway, Sections 4 and 5	2,568,828
Timber Forest Drive, Section 3 and Madera Run Parkway, Section 3	900,104
Total additions to capital assets	$ 5,695,487

The developer within the District has constructed water, sewer, drainage, recreational and road facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission. As of June 30, 2017, a liability for developer-constructed capital assets of $18,692,265 was recorded in the government-wide financial statements.

Debt

The changes in the debt position of the District during the fiscal year ended June 30, 2017, are summarized as follows:

Long-term debt payable, beginning of year	$ 19,665,913
Increases in long-term debt	15,516,212
Decreases in long-term debt	6,027,760
Long-term debt payable, end of year	$ 29,154,365

At June 30, 2017, the District had $237,270,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District, $131,380,000 of unlimited tax bonds authorized, but unissued, for financing and constructing road facilities, and $40,700,000 of unlimited tax bonds authorized, but unissued, for financing and constructing recreational facilities.

The District's bonds carry no underlying rating. The Series 2017 bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company.

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent. If the District is annexed, the City must assume the District's assets and obligations (including the bonded indebtedness) and abolish the District within 90 days.

Contingencies

The developer of the District is constructing water, sewer, recreational and drainage facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately $5,260,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Economic Dependency

The District's developer owns the majority of the taxable property in the District. The District's ability to meet its obligations is dependent on the developer's ability to pay property taxes.

Since inception, the developer has advanced $700,000 to the District for operations, net of repayments. The District does not have sufficient funds or anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

Subsequent Event

On July 13, 2017, the District issued its Series 2017 bond anticipation note in the amount of $5,585,000. The note is dated July 13, 2017, bears interest at the rate 1.64 percent and matures on July 12, 2018.

Harris County Municipal Utility District No. 504
Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	$ 193,101	$ 631,857	$ 17,152	$ 842,110	$ -	$ 842,110
Short-term investments	220,554	-	667,693	888,247	-	888,247
Receivables:						
Property taxes	4,137	4,078	-	8,215	-	8,215
Service accounts	39,105	-	-	39,105	-	39,105
Accrued penalty and interest	-	-	-	-	986	986
Interfund receivable	17,690	-	-	17,690	(17,690)	-
Due from others	45,014	96	3	45,113	-	45,113
Prepaid expenditures	2,579	-	-	2,579	-	2,579
Capital assets (net of accumulated depreciation):						
Land and improvements	-	-	-	-	5,599,909	5,599,909
Infrastructure	-	-	-	-	8,595,328	8,595,328
Roads	-	-	-	-	2,549,505	2,549,505
Total assets	$ 522,180	$ 636,031	$ 684,848	$ 1,843,059	$ 16,728,038	$ 18,571,097

Harris County Municipal Utility District No. 504

Statement of Net Position and Governmental Funds Balance Sheet (Continued)

June 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Liabilities						
Accounts payable	$ 180,032	$ 2,682	$ 4,321	$ 187,035	$ -	$ 187,035
Accrued interest payable	-	1,408	-	1,408	92,812	94,220
Customer deposits	57,885	-	-	57,885	-	57,885
Due to others	604	-	-	604	-	604
Unearned tap connection fees	97,521	-	-	97,521	-	97,521
Interfund payable	-	17,690	-	17,690	(17,690)	-
Long-term liabilities, due after one year	-	-	-	-	29,154,365	29,154,365
Total liabilities	336,042	21,780	4,321	362,143	29,229,487	29,591,630
Deferred Inflows of Resources						
Deferred property tax revenues	4,137	4,078	0	8,215	(8,215)	0
Fund Balances/Net Position						
Fund balances:						
Nonspendable, prepaid expenditures	2,579	-	-	2,579	(2,579)	-
Restricted:						
Unlimited tax bonds	-	610,173	-	610,173	(610,173)	-
Water, sewer and drainage	-	-	680,527	680,527	(680,527)	-
Assigned, operating reserve	45,000	-	-	45,000	(45,000)	-
Unassigned	134,422	-	-	134,422	(134,422)	-
Total fund balances	182,001	610,173	680,527	1,472,701	(1,472,701)	0
Total liabilities, deferred inflows of resources and fund balances	$ 522,180	$ 636,031	$ 684,848	$ 1,843,059		
Net position:						
Net investment in capital assets					(11,825,483)	(11,825,483)
Restricted for debt service					366,072	366,072
Restricted for capital projects					252,740	252,740
Unrestricted					186,138	186,138
Total net position					$ (11,020,533)	$ (11,020,533)

Harris County Municipal Utility District No. 504

Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	$ 504,698	$ 467,057	$ -	$ 971,755	$ 7,520	$ 979,275
Water service	150,254	-	-	150,254	-	150,254
Sewer service	59,125	-	-	59,125	-	59,125
Penalty and interest	2,858	2,761	-	5,619	903	6,522
Tap connection and inspection fees	234,352	-	-	234,352	-	234,352
Investment income	684	856	2,818	4,358	-	4,358
Other income	28,361	-	250,000	278,361	-	278,361
Total revenues	980,332	470,674	252,818	1,703,824	8,423	1,712,247
Expenditures/Expenses						
Service operations:						
Purchased services	263,025	-	-	263,025	-	263,025
Professional fees	110,158	-	-	110,158	63,860	174,018
Contracted services	55,777	11,262	-	67,039	2,000	69,039
Utilities	3,788	-	-	3,788	-	3,788
Repairs and maintenance	277,187	-	-	277,187	11,750	288,937
Tap connections	102,708	-	-	102,708	-	102,708
Lease payments	-	-	-	-	223,200	223,200
Other expenditures	69,246	1,405	86	70,737	-	70,737
Capital outlay	73,600	-	4,164,850	4,238,450	(4,238,450)	-
Purchase of capacity	-	-	-	-	336,745	336,745
Conveyance of capital assets	-	-	-	-	2,580,488	2,580,488
Depreciation	-	-	-	-	343,753	343,753
Debt service:						
Principal retirement	-	-	2,575,000	2,575,000	(2,575,000)	-
Interest and fees	-	237,681	31,041	268,722	(3,162)	265,560
Debt issuance costs	54,158	-	320,187	374,345	-	374,345
Total expenditures/expenses	1,009,647	250,348	7,091,164	8,351,159	(3,254,816)	5,096,343
Excess (Deficiency) of Revenues Over Expenditures	(29,315)	220,326	(6,838,346)	(6,647,335)	3,263,239	

Harris County Municipal Utility District No. 504

Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances (Continued)

Year Ended June 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Other Financing Sources (Uses)						
Repayment of developer advances	$ -	$ -	$ (50,000)	$ (50,000)	$ 50,000	
Developer advances received	200,000	-	-	200,000	(200,000)	
General obligation bonds issued	-	-	4,800,000	4,800,000	(4,800,000)	
Discount on debt issued	-	-	(144,000)	(144,000)	144,000	
Bond anticipation note issued	-	-	2,575,000	2,575,000	(2,575,000)	
Total other financing sources	200,000	0	7,181,000	7,381,000	(7,381,000)	
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	170,685	220,326	342,654	733,665	(733,665)	
Change in Net Position					(3,384,096)	$ (3,384,096)
Fund Balances/Net Position						
Beginning of year	11,316	389,847	337,873	739,036	-	(7,636,437)
End of year	$ 182,001	$ 610,173	$ 680,527	$ 1,472,701	$ 0	$ (11,020,533)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Harris County Municipal Utility District No. 504 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective March 3, 2009, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services, and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Capital Projects Fund – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of Estimates

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

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended June 30, 2017, include collections during the current period or within 60 days of year-end related to the 2016 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended June 30, 2017, the 2016 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of $5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45
Roads	10-25

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

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

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	$ 16,744,742
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	8,215
Penalty and interest on delinquent taxes is not receivable in the current period and is not reportable in the funds.	986
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(92,812)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	(29,154,365)
Adjustment to fund balances to arrive at net position.	$ (12,493,234)

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	$	733,665
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation, noncapitalized expenditures and conveyance of capital assets in the current year.		676,654
Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer.		(150,000)
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		144,000
Governmental funds report proceeds from the sale of bonds and bond anticipation notes because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position.		(4,800,000)
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.		8,423
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		3,162
Change in net position of governmental activities.	$	(3,384,096)

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At June 30, 2017, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexSTAR, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Directors, made up of participants and representatives of the administrator and investment manager, has oversight of TexSTAR. The District's investments may be redeemed at any time. TexSTAR attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques.

At June 30, 2017, the District had the following investments and maturities.

		Maturities in Years			
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
TexSTAR	$ 888,247	$ 888,247	$ 0	$ 0	$ 0

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that this issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2017, the District's investments in TexSTAR were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at June 30, 2017, as follows:

Carrying value:	
Deposits	$ 842,110
Investments	888,247
Total	$ 1,730,357

Investment Income

Investment income of $4,358 for the year ended June 30, 2017, consisted of interest income.

Fair Value Measurements

The District has the following recurring fair value measurements as of June 30, 2017:

- Pooled investments of $888,247 are valued at fair value per share of the pool's underlying portfolio.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended June 30, 2017, is presented below.

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	$ 3,031,081	$ 2,568,828	$ 5,599,909
Capital assets, depreciable:			
Water production and distribution facilities	1,997,603	861,857	2,859,460
Wastewater collection and treatment facilities	3,511,541	1,364,698	4,876,239
Drainage facilities	1,259,903	-	1,259,903
Roads	1,973,703	900,104	2,873,807
Total capital assets, depreciable	8,742,750	3,126,659	11,869,409
Less accumulated depreciation:			
Water production and distribution facilities	(65,920)	(63,615)	(129,535)
Wastewater collection and treatment facilities	(106,293)	(108,450)	(214,743)
Drainage facilities	(27,998)	(27,998)	(55,996)
Roads	(180,612)	(143,690)	(324,302)
Total accumulated depreciation	(380,823)	(343,753)	(724,576)
Total governmental activities, net	$ 11,393,008	$ 5,351,734	$ 16,744,742

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2017, were as follows:

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
General obligation bonds	$ 5,250,000	$ 4,800,000	$ -	$ 10,050,000	$ -
Less discounts on bonds	145,425	144,000	1,525	287,900	-
	5,104,575	4,656,000	(1,525)	9,762,100	0
Bond anticipation note	-	2,575,000	2,575,000	-	-
Developer advances	550,000	200,000	50,000	700,000	-
Due to developer	14,011,338	8,085,212	3,404,285	18,692,265	-
Total governmental activities long-term liabilities	$ 19,665,913	$ 15,516,212	$ 6,027,760	$ 29,154,365	$ 0

General Obligation Bonds

	Series 2015	Series 2017
Amounts outstanding, June 30, 2017	$5,250,000	$4,800,000
Interest rates	2.00% to 4.10%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2018/2044	September 1, 2019/2046
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2022	September 1, 2024

*Or any date thereafter, callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at June 30, 2017.

Year	Principal	Interest	Total
2018	$ -	$ 338,970	$ 338,970
2019	95,000	366,175	461,175
2020	200,000	363,225	563,225
2021	205,000	359,043	564,043
2022	210,000	353,987	563,987
2023-2027	1,185,000	1,668,873	2,853,873
2028-2032	1,445,000	1,451,442	2,896,442
2033-2037	1,780,000	1,148,704	2,928,704
2038-2042	2,205,000	753,068	2,958,068
2043-2047	2,725,000	269,627	2,994,627
Total	$ 10,050,000	$ 7,073,114	$ 17,123,114

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Bonds voted:	
Water, sewer and drainage facilities	$247,320,000
Roads	131,380,000
Recreational facilities	40,700,000
Bonds sold:	
Water, sewer and drainage facilities	$10,050,000

Due to Developer

The developer of the District has constructed water, sewer, drainage, recreational and road facilities on behalf of the District. The District has agreed to reimburse the developer for these construction costs and interest to the extent approved by the Commission from the proceeds of future bond sales. The District's engineer estimates reimbursable costs for completed projects are $18,692,265. These amounts have been recorded in the financial statements as long-term liabilities.

Bond Anticipation Note

On September 26, 2016, the District issued its Series 2016 bond anticipation note in the amount of $2,575,000. The note is dated September 26, 2016, bears interest at the rate of 2 percent and matured September 25, 2017, unless called for early redemption. During the current year, the note was paid in full from the proceeds of the Series 2017 bonds.

Note 5: Significant Bond Resolution and Commission Requirements

A. The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended June 30, 2017, the District levied an ad valorem debt service tax at the rate of $0.6900 per $100 of assessed valuation, which resulted in a tax levy of $471,135 on the taxable valuation of $68,280,425 for the 2016 tax year. The principal and interest requirements to be paid from the tax revenues are $254,504 of which $99,097 has been paid and $155,407 is due September 1, 2017.

B. In accordance with the Series 2015 Bond Order, a portion of the bond proceeds was deposited into the debt service fund and reserved for the payment of bond interest during the construction period. The bond interest reserve is reduced as the interest is paid.

Bond interest reserve, beginning of year	$	396,388
Deductions--Appropriation from bond interest paid		240,035
Bond interest reserve, end of year	$	156,353

Note 6: Maintenance Taxes

At an election held November 5, 2013, voters authorized a maintenance tax not to exceed $1.50 per $100 valuation on all property within the District subject to taxation. During the year ended June 30, 2017, the District levied an ad valorem maintenance tax at the rate of $0.7000 per $100 of assessed valuation, which resulted in a tax levy of $477,963 on the taxable valuation of $68,280,485 for the 2016 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 7: Wastewater Treatment Plant Lease

On January 6, 2014, the District entered into a lease of a 320,000 gallons per-day (gpd) wastewater treatment plant. The initial term of the lease is for 60 months and will then continue for successive 90-day periods at a rate of $12,500 per month. Payments are currently $18,600 per month beginning March 2015. Future minimum annual lease payments are: 2018 - $223,200; 2019 - $223,200, and 2020 - $148,800.

Note 8: Contracts With Other Governmental Units

Water Facilities Agreement

On May 18, 2010, the developer of the District entered into a Water Facilities Cost Sharing Agreement (Water Facilities Agreement) with Harris County Municipal Utility District No. 412 (District No. 412) and Harris County Municipal Utility District No. 505 (District No. 505). The Water Facilities Agreement provides for the construction and operation of joint water facilities to be utilized by the parties to the Water Facilities Agreement. Construction costs are to be allocated based upon each district's projected number of equivalent single-family connections (ESFCs) to be served by the water facilities. Operating costs are to be billed based upon each district's actual ESFCs. The District has remitted an operating reserve of $25,000 to District No. 412 and has recorded expenditures of $186,911 for the year ended June 30, 2017, under the terms of the Water Facilities Agreement.

Sanitary Sewer Facilities Agreement

On May 18, 2010, the developer of the District entered into a Sanitary Sewer Facilities Cost Sharing Agreement (Sanitary Sewer Facilities Agreement) with District No. 412 and District No. 505. The Sanitary Sewer Facilities Agreement provides for the construction and operation of joint sanitary sewer facilities to be utilized by the parties to the Sanitary Sewer Facilities Agreement. Construction costs are to be allocated based upon each district's projected number of ESFCs to be served by the sewer facilities. Operating costs are to be billed based upon each district's actual ESFCs. The District has remitted an operating reserve of $10,000 to District No. 412 and has recorded expenditures of $43,325 for the year ended June 30, 2017, under the terms of the Sanitary Sewer Facilities Agreement.

Drainage Facilities Agreement

On May 18, 2010, the developer of the District entered into a Drainage Facilities Cost Sharing Agreement (Drainage Facilities Agreement) with District No. 412 and District No. 505. The Drainage Facilities Agreement provides for the construction and operation of joint drainage facilities to be utilized by the parties to the Drainage Facilities Agreement. Construction costs are to be allocated based upon each district's acreage served by the facilities. Operating costs are to be billed based upon each district's acreage served by the components of the facilities. The District has remitted an operating reserve of $10,000 to District No. 412 and has recorded expenditures of $32,789 for the year ended June 30, 2017, under the terms of the Drainage Facilities Agreement.

Note 9: Risk Management

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

Note 10: Contingencies

The developer of the District is constructing water, sewer, drainage, recreational and road facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately $5,260,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Note 11: Economic Dependency

The District's developer owns the majority of the taxable property in the District. The District's ability to meet its obligations is dependent on the developer's ability to pay property taxes.

Since inception, the developer has advanced $700,000 to the District for operations, net of repayments. The District does not have sufficient funds or anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

Note 12: Subsequent Event

On July 13, 2017, the District issued its Series 2017 bond anticipation note in the amount of $5,585,000. The note is dated July 13, 2017, bears interest at the rate 1.64 percent and matures on July 12, 2018.

Required Supplementary Information

Harris County Municipal Utility District No. 504
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2017

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	$ 242,000	$ 345,000	$ 504,698	$ 159,698
Water service	100,000	100,000	150,254	50,254
Sewer service	47,000	47,000	59,125	12,125
Penalty and interest	4,000	4,000	2,858	(1,142)
Tap connection and inspection fees	140,000	140,000	234,352	94,352
Investment income	500	500	684	184
Other income	-	-	28,361	28,361
Total revenues	533,500	636,500	980,332	343,832
Expenditures				
Service operations:				
Purchased services	187,000	330,322	263,025	67,297
Professional fees	128,500	128,500	110,158	18,342
Contracted services	52,000	52,000	55,777	(3,777)
Utilities	-	-	3,788	(3,788)
Repairs and maintenance	151,000	151,000	277,187	(126,187)
Tap connections	108,000	108,000	102,708	5,292
Other expenditures	61,600	61,600	69,246	(7,646)
Capital outlay	-	-	73,600	(73,600)
Debt issuance costs	-	-	54,158	(54,158)
Total expenditures	688,100	831,422	1,009,647	(178,225)
Excess (Deficiency) of Revenues Over Expenditures	(154,600)	(194,922)	(29,315)	165,607
Other Financing Sources				
Developer advances received	154,600	194,922	200,000	5,078
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	170,685	170,685
Fund Balance, Beginning of Year	11,316	11,316	11,316	-
Fund Balance, End of Year	$ 11,316	$ 11,316	$ 182,001	$ 170,685

Harris County Municipal Utility District No. 504
Notes to Required Supplementary Information
June 30, 2017

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was amended during fiscal 2017.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Harris County Municipal Utility District No. 504
Other Schedules Included Within This Report
June 30, 2017

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

[X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 13-27

[X] Schedule of Services and Rates

[X] Schedule of General Fund Expenditures

[X] Schedule of Temporary Investments

[X] Analysis of Taxes Levied and Receivable

[X] Schedule of Long-term Debt Service Requirements by Years

[X] Changes in Long-term Bonded Debt

[X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund

[X] Board Members, Key Personnel and Consultants

Harris County Municipal Utility District No. 504

Schedule of Services and Rates

Year Ended June 30, 2017

1. Services provided by the District:

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

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

___ Other ______

2. Retail service providers

a. Residential rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels		
Water:	$ 36.50	7,000	N	$ 2.25	7,001	to	15,000
				$ 2.50	15,001	to	25,000
				$ 3.00	25,001	to	No Limit
Wastewater:	$ 30.00	0	Y				

Does the District employ winter averaging for wastewater usage? Yes ___ No X

Total charges per 10,000 gallons usage (including fees): Water $ 43.25 Wastewater $ 30.00

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC*
Unmetered	-	-	x1.0	-
≤ 3/4"	243	243	x1.0	243
1"	100	100	x2.5	250
1 1/2"	-	-	x5.0	-
2"	7	7	x8.0	56
3"	2	2	x15.0	30
4"	-	-	x25.0	-
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	352	352		579
Total wastewater	340	340	x1.0	340

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	43,134
Gallons billed to customers:	43,134
Water accountability ratio (gallons billed/gallons pumped):	100.00%

*"ESFC" means equivalent single-family connections

Harris County Municipal Utility District No. 504
Schedule of General Fund Expenditures
Year Ended June 30, 2017

Personnel (including benefits)		$ -
Professional Fees		
Auditing	$ 8,400	
Legal	76,751	
Engineering	25,007	
Financial advisor	-	110,158
Purchased Services for Resale		
Bulk water and wastewater service purchases		263,025
Regional Water Fee		-
Contracted Services		
Bookkeeping	14,400	
General manager	-	
Appraisal district	6,591	
Tax collector	4,671	
Security	-	
Other contracted services	30,115	55,777
Utilities		3,788
Repairs and Maintenance		277,187
Administrative Expenditures		
Directors' fees	10,650	
Office supplies	5,800	
Insurance	7,300	
Other administrative expenditures	45,496	69,246
Capital Outlay		
Capitalized assets	73,600	
Expenditures not capitalized	-	73,600
Tap Connection Expenditures		102,708
Lease Payments		-
Solid Waste Disposal		-
Fire Fighting		-
Parks and Recreation		-
Other Expenditures		54,158
Total expenditures		$ 1,009,647

Harris County Municipal Utility District No. 504
Schedule of Temporary Investments
June 30, 2017

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
TexSTAR	0.86%	Demand	$ 220,554	$ -
Capital Projects Fund				
TexSTAR	0.86%	Demand	667,693	-
Totals			$ 888,247	$ 0

Harris County Municipal Utility District No. 504
Analysis of Taxes Levied and Receivable
Year Ended June 30, 2017

	Maintenance Taxes	Debt Service Taxes
Receivable, Beginning of Year	$ 695	$ -
Additions and corrections to prior years' taxes	(408)	-
Adjusted receivable, beginning of year	287	0
2016 Original Tax Levy	358,137	353,021
Additions and corrections	119,826	118,114
Adjusted tax levy	477,963	471,135
Total to be accounted for	478,250	471,135
Tax collections: Current year	(473,826)	(467,057)
Prior years	(287)	-
Receivable, end of year	$ 4,137	$ 4,078
Receivable, by Years		
2016	$ 4,137	$ 4,078

Harris County Municipal Utility District No. 504
Analysis of Taxes Levied and Receivable (Continued)
Year Ended June 30, 2017

	2016	2015	2014
Property Valuations			
Land	$ 33,407,514	$ 13,313,297	$ 9,769,507
Improvements	37,624,487	2,418,952	-
Personal property	708,944	13,079	-
Exemptions	(3,460,520)	(453,400)	(2,761,159)
Total property valuations	$ 68,280,425	$ 15,291,928	$ 7,008,348
Tax Rates per $100 Valuation			
Debt service tax rates	$ 0.6900	$ -	$ -
Maintenance tax rates*	0.7000	1.3900	1.3900
Total tax rates per $100 valuation	$ 1.3900	$ 1.3900	$ 1.3900
Tax Levy	$ 949,098	$ 212,558	$ 97,416
Percent of Taxes Collected to Taxes Levied**	99%	100%	100%

*Maximum tax rate approved by voters: $1.50 on November 5, 2013

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

Harris County Municipal Utility District No. 504
Schedule of Long-Term Debt Service Requirements by Years
Year Ended June 30, 2017

	Series 2015		
Due During Fiscal Years Ending June 30	Principal Due September 1	Interest Due September 1, March 1	Total
2018	$ -	$ 198,194	$ 198,194
2019	95,000	197,244	292,244
2020	95,000	195,344	290,344
2021	105,000	193,212	298,212
2022	110,000	190,656	300,656
2023	115,000	187,700	302,700
2024	120,000	184,319	304,319
2025	125,000	180,519	305,519
2026	130,000	176,340	306,340
2027	140,000	171,714	311,714
2028	145,000	166,636	311,636
2029	155,000	161,100	316,100
2030	160,000	155,095	315,095
2031	170,000	148,595	318,595
2032	180,000	141,595	321,595
2033	190,000	134,195	324,195
2034	200,000	126,395	326,395
2035	210,000	118,195	328,195
2036	220,000	109,595	329,595
2037	235,000	100,495	335,495
2038	245,000	90,773	335,773
2039	255,000	80,523	335,523
2040	270,000	69,895	339,895
2041	285,000	58,795	343,795
2042	300,000	46,945	346,945
2043	315,000	34,338	349,338
2044	330,000	21,115	351,115
2045	350,000	7,175	357,175
Totals	$ 5,250,000	$ 3,646,697	$ 8,896,697

Harris County Municipal Utility District No. 504

Schedule of Long-Term Debt Service Requirements by Years (Continued)

Year Ended June 30, 2017

	Series 2017		
Due During Fiscal Years Ending June 30	Principal Due September 1	Interest Due September 1, March 1	Total
2018	$ -	$ 140,776	$ 140,776
2019	-	168,931	168,931
2020	105,000	167,881	272,881
2021	100,000	165,831	265,831
2022	100,000	163,331	263,331
2023	105,000	160,256	265,256
2024	110,000	157,031	267,031
2025	110,000	153,731	263,731
2026	115,000	150,356	265,356
2027	115,000	146,907	261,907
2028	120,000	143,382	263,382
2029	120,000	139,782	259,782
2030	130,000	135,950	265,950
2031	130,000	131,807	261,807
2032	135,000	127,500	262,500
2033	135,000	123,029	258,029
2034	140,000	117,950	257,950
2035	145,000	112,250	257,250
2036	150,000	106,350	256,350
2037	155,000	100,250	255,250
2038	160,000	93,950	253,950
2039	165,000	87,656	252,656
2040	170,000	81,375	251,375
2041	175,000	74,906	249,906
2042	180,000	68,250	248,250
2043	185,000	61,406	246,406
2044	190,000	54,375	244,375
2045	195,000	47,156	242,156
2046	565,000	32,906	597,906
2047	595,000	11,156	606,156
Totals	$ 4,800,000	$ 3,426,417	$ 8,226,417

Harris County Municipal Utility District No. 504
Schedule of Long-Term Debt Service Requirements by Years (Continued)
Year Ended June 30, 2017

	Annual Requirements For All Series		
Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2018	$ -	$ 338,970	$ 338,970
2019	95,000	366,175	461,175
2020	200,000	363,225	563,225
2021	205,000	359,043	564,043
2022	210,000	353,987	563,987
2023	220,000	347,956	567,956
2024	230,000	341,350	571,350
2025	235,000	334,250	569,250
2026	245,000	326,696	571,696
2027	255,000	318,621	573,621
2028	265,000	310,018	575,018
2029	275,000	300,882	575,882
2030	290,000	291,045	581,045
2031	300,000	280,402	580,402
2032	315,000	269,095	584,095
2033	325,000	257,224	582,224
2034	340,000	244,345	584,345
2035	355,000	230,445	585,445
2036	370,000	215,945	585,945
2037	390,000	200,745	590,745
2038	405,000	184,723	589,723
2039	420,000	168,179	588,179
2040	440,000	151,270	591,270
2041	460,000	133,701	593,701
2042	480,000	115,195	595,195
2043	500,000	95,744	595,744
2044	520,000	75,490	595,490
2045	545,000	54,331	599,331
2046	565,000	32,906	597,906
2047	595,000	11,156	606,156
Totals	$ 10,050,000	$ 7,073,114	$ 17,123,114

Harris County Municipal Utility District No. 504

Changes in Long-term Bonded Debt

Year Ended June 30, 2017

	Bond Issues		
	Series 2015	**Series 2017**	**Totals**
Interest rates	2.00% to 4.10%	2.00% to 4.00%	
Dates interest payable	September 1/ March 1	September 1/ March 1	
Maturity dates	September 1, 2018/2044	September 1, 2019/2046	
Bonds outstanding, beginning of the current year	$ 5,250,000	$ -	$ 5,250,000
Bonds sold during the current year	-	4,800,000	4,800,000
Bonds outstanding, end of current year	$ 5,250,000	$ 4,800,000	$ 10,050,000
Interest paid during the current year	$ 240,035	$ 0	$ 240,035

Paying agent's name and address:

Series 2015 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2017 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:	**Utility Bonds**	**Park Bonds**	**Road Bonds**	**Refunding Bonds**
Amount authorized by voters	$ 247,320,000	$ 40,700,000	$ 131,380,000	0
Amount issued	$ 10,050,000	$ -	$ -	0
Remaining to be issued	$ 237,270,000	$ 40,700,000	$ 131,380,000	0

Debt service fund cash and temporary investment balances as of June 30, 2017:	$ 631,857
Average annual debt service payment (principal and interest) for remaining term of all debt:	$ 570,770

Harris County Municipal Utility District No. 504
Comparative Schedule of Revenues and Expenditures – General Fund
Two Years Ended June 30, and Period From Inception (March 3, 2009) Through June 30, 2015

	Amounts		
	2017	2016	2015*
General Fund			
Revenues			
Property taxes	$ 504,698	$ 211,863	$ 97,416
Water service	150,254	101,024	17,160
Sewer service	59,125	49,370	8,692
Penalty and interest	2,858	3,084	617
Tap connection and inspection fees	234,352	200,574	145,705
Investment income	684	74	73
Other income	28,361	2,769	340
Total revenues	980,332	568,758	270,003
Expenditures			
Service operations:			
Purchased services	263,025	160,837	21,244
Professional fees	110,158	137,402	251,108
Contracted services	55,777	32,091	20,700
Utilities	3,788	2,921	717
Repairs and maintenance	277,187	274,959	61,319
Tap connections	102,708	98,694	63,553
Lease payments	-	93,000	74,400
Other expenditures	69,246	63,521	53,582
Capital outlay	73,600	-	50,214
Debt issuance costs	54,158	35,000	-
Total expenditures	1,009,647	898,425	596,837
Excess (Deficiency) of Revenues Over Expenditures	(29,315)	(329,667)	(326,834)
Other Financing Sources			
Interfund transfers in	-	42,817	-
Developer advances received	200,000	250,000	375,000
Total other financing sources	200,000	292,817	375,000
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	170,685	(36,850)	48,166
Fund Balance, Beginning of Year	11,316	48,166	-
Fund Balance, End of Year	$ 182,001	$ 11,316	$ 48,166
Total Active Retail Water Connections	352	213	93
Total Active Retail Wastewater Connections	340	208	91

*Period from inception to June 30, 2015

Percent of Fund Total Revenues		
2017	**2016**	**2015***
51.5 %	37.2 %	36.1 %
15.3	17.8	6.4
6.0	8.7	3.2
0.3	0.5	0.2
23.9	35.3	54.0
0.1	0.0	0.0
2.9	0.5	0.1
100.0	100.0	100.0
26.8	28.3	7.9
11.2	24.2	93.0
5.7	5.6	7.7
0.4	0.5	0.3
28.3	48.3	22.7
10.5	17.4	23.5
-	16.4	27.6
7.1	11.2	19.8
7.5	-	18.6
5.5	6.2	-
103.0	158.1	221.1
(3.0) %	(58.1) %	(121.1) %

Harris County Municipal Utility District No. 504
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Two Years Ended June 30,

	Amounts		Percent of Fund Total Revenues	
	2017	2016	2017	2016
Debt Service Fund				
Revenues				
Property taxes	$ 467,057	$ -	99.2 %	- %
Penalty and interest	2,761	2,145	0.6	91.4
Investment income	856	202	0.2	8.6
Total revenues	470,674	2,347	100.0	100.0
Expenditures				
Current:				
Contracted services	11,262	6,912	2.4	294.5
Other expenditures	1,405	1,226	0.3	52.2
Debt service, interest and fees	237,681	750	50.5	32.0
Total expenditures	250,348	8,888	53.2	378.7
Excess (Deficiency) of Revenues Over Expenditures	220,326	(6,541)	46.8 %	(278.7) %
Other Financing Sources				
General obligation bonds issued	-	396,388		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	220,326	389,847		
Fund Balance, Beginning of Year	389,847	-		
Fund Balance, End of Year	$ 610,173	389,847		

Harris County Municipal Utility District No. 504
Board Members, Key Personnel and Consultants
Year Ended June 30, 2017

Complete District mailing address:	Harris County Municipal Utility District No. 504 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027	
District business telephone number:	713.860.6400	
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 45.054):		June 2, 2016
Limit on fees of office that a director may receive during a fiscal year:		$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Cynthia Bartholomew	Elected 05/14-05/18	$ 1,650	$ 228	President
Raul Wong	Elected 05/16-05/20	3,600	570	Vice President
Lisa Lindley	Elected 05/14-05/18	1,800	74	Secretary
Cathy Simandl	Elected 05/16-05/20	1,950	2,544	Assistant Secretary
Sharon Mensik	Elected 05/16-05/20	1,650	319	Assistant Vice President

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

Harris County Municipal Utility District No. 504
Board Members, Key Personnel and Consultants (Continued)
Year Ended June 30, 2017

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	10/30/12	$ 158,508 135,104	Attorney Bond Counsel
BGE, Inc.	10/30/12	127,392	Engineer
BKD, LLP	06/04/15	22,300	Auditor
Harris County Appraisal District	Legislative Action	6,591	Appraiser
Myrtle Cruz, Inc.	03/07/13	21,302	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/06/14	0	Delinquent Tax Attorney
Rathmann & Associates, L.P.	03/07/13	123,250	Financial Advisor
Severn Trent Services	09/05/13	319,644	Operator
Thomas W. Lee, RTA	03/07/13	5,120	Tax Assessor/ Collector

Investment Officer			
Mary Jarmon	03/07/13	N/A	Bookkeeper

APPENDIX C

SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY

BAM

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $__________ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on]

Effective Date: _________

Risk Premium: $__________
Member Surplus Contribution: $_________
Total Insurance Payment: $_________

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
  claims@buildamerica.com
Address:
  1 World Financial Center, 27th floor
  200 Liberty Street
  New York, New York 10281
Telecopy:
  212-962-1524 (attention: Claims)