

OFFICIAL STATEMENT DATED JUNE 25, 2019

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

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

NEW ISSUE – Book-Entry-Only

RATINGS:

Moody's (Underlying)....."Baa1"
 Moody's (Insured)....."A2"
 S&P (Insured)....."AA"

See "MUNICIPAL BOND RATING" and
 "MUNICIPAL BOND INSURANCE" herein

\$12,615,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500

(A Political Subdivision of the State of Texas, located within Harris County)

CONTRACT REVENUE BONDS (WATER, SEWER AND DRAINAGE FACILITIES), SERIES 2019

Dated Date: July 1, 2019

Due: December 1, as shown below

The \$12,615,000 Harris County Municipal Utility District No. 500 Contract Revenue Bonds (Water, Sewer and Drainage Facilities), Series 2019 (the "Bonds") are special obligations solely of Harris County Municipal Utility District No. 500 (the "Master District" or the "District") payable solely from and to the extent of payments required to be made to the Trustee (as herein defined) by the municipal utility districts within the Master District Service Area (the "Service Area") that have executed Master District Contracts (the "Participants") from proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by each Participant or from other revenues available to such Participant (the "Water/Sewer/Drainage Contract Payment"). Payment of Water/Sewer/Drainage Contract Payments by Participants and use of such proceeds by the Master District to pay debt service on the Bonds is governed by the Contract for Financing, Operation, and Maintenance of Regional Facilities, as amended (the "Master District Contract"), as described more fully herein under "MASTER DISTRICT CONTRACT." The Bonds are special obligations of the Master District payable solely from the Water/Sewer/Drainage Contract Payments and are not obligations of the State of Texas, Harris County, the City of Houston, any of the Participants (except the Master District), or any entity other than the Master District.

The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. Principal of the Bonds will be payable upon presentation of the Bonds at the principal payment office of the paying agent/registrars, initially The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent/Registrar"), in Houston, Texas. Interest accrues from July 1, 2019, and is payable December 1, 2019, and each June 1 and December 1 thereafter until the earlier of maturity or redemption.

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. ("AGM").

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (December 1)	Principal Amount	Interest Rate(a)	Initial Reoffering Yield (b)	CUSIP (c) 41422P	Due (December 1)	Principal Amount	Interest Rate(a)	Initial Reoffering Yield (b)	CUSIP (c) 41422P
2020	\$205,000	5.000%	1.650%	MC9	2028(d)	\$270,000	3.000%	2.450%	ML9
2021	220,000	5.000%	1.700%	MD7	2029(d)	285,000	3.000%	2.550%	MM7
2022	225,000	5.000%	1.750%	ME5	2030(d)	290,000	3.000%	2.750%	MN5
2023	245,000	5.000%	1.800%	MF2	2031(d)	305,000	3.000%	2.850%	MP0
2024	250,000	5.000%	1.900%	MG0	2034(d)	315,000	3.000%	3.020%	MS4
2025	255,000	5.000%	2.000%	MH8	2035(d)	315,000	3.000%	3.050%	MT2
2026(d)	255,000	4.500%	2.050%	MJ4	2041(d)	405,000	3.000%	3.140%	MZ8
2027(d)	270,000	3.000%	2.300%	MK1	2042(d)	395,000	3.000%	3.150%	NA2

\$630,000 Term Bonds Due December 1, 2033 (d) (e) Interest Rate 3.000% Initial Yield 3.000% (b) CUSIP No. 41422P MR6 (c)

\$645,000 Term Bonds Due December 1, 2037 (d) (e) Interest Rate 3.000% Initial Yield 3.100% (b) CUSIP No. 41422P MV7 (c)

\$1,320,000 Term Bonds Due December 1, 2040 (d) (e) Interest Rate 3.000% Initial Yield 3.130% (b) CUSIP No. 41422P MY1 (c)

\$5,515,000 Term Bonds Due December 1, 2044 (d) (e) Interest Rate 3.000% Initial Yield 3.173% (b) CUSIP No. 41422P NC8 (c)

- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest net effective interest rate bid to purchase the Bonds, bearing interest as shown, at a price of 97.148546% of par, plus accrued interest to the date of delivery.
- (b) Initial reoffering yield represents the initial offering yield to the public which has been established by the Initial Purchaser (as herein defined) for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from July 1, 2019 to the date fixed for initial delivery is to be added to the price.
- (c) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (d) Bonds maturing on or after December 1, 2026, are subject to redemption prior to maturity at the option of the District, in whole or from time-to-time in part, on December 1, 2025, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS – Redemption Provisions."
- (e) In addition to being subject to optional redemption, as described above, the Term Bonds (as hereinafter defined) are also subject to mandatory redemption by lot or other customary random selection method on December 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions."

The Bonds are offered when, as and if issued by the District and accepted by the Initial Purchaser, subject among other things to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by Norton Rose Fulbright US LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about July 31, 2019, in Houston, Texas. See "LEGAL MATTERS."

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, audits, 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 RBC Capital Markets, LLC, 609 Main Street, Suite 3600, Houston, TX 77002, the Financial Advisor to the District.

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 Initial Purchaser, and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT - Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading "MUNICIPAL BOND INSURANCE" and "Appendix C - Specimen Municipal Bond Insurance Policy".

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the lowest net effective interest rate bid, which was tendered by SAMCO Capital Markets, Inc. (referred to herein as the “Initial Purchaser” or “Underwriter”). The Initial Purchaser has agreed to purchase the Bonds, bearing the interest rates on the cover page of this Official Statement, at a price of 97.148546% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 3.212935%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

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

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER - ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the 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 in such other jurisdictions.

MUNICIPAL BOND RATING

S&P Global Ratings (“S&P”), a Standard & Poor’s Financial Services LLC business, and Moody’s Investors Services Inc. (“Moody’s”) are expected to assign their municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (See “MUNICIPAL BOND INSURANCE”). Additionally, Moody’s has assigned the Bonds an underlying rating of “Baa1.” An explanation of the significance of such ratings may be obtained from S&P and Moody’s. These ratings reflect only the views of S&P and Moody’s, and the District makes no representation as to the appropriateness of such ratings. Further, there is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely, if circumstances so warrant. Any such downward revisions or withdrawal of the ratings may have an adverse effect on the trading value and the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM” or the “Bond 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.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM 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 relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On June 27, 2019, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Capitalization of AGM

At March 31, 2019:

- The policyholders' surplus of AGM was approximately \$2,523 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,054 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,848 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading “MUNICIPAL BOND INSURANCE”.

BOND INSURANCE RISK FACTORS

The District has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The Initial Purchaser has determined that an insurance policy will be purchased with the Bonds, and the following are risk factors relating to bond insurance.

In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

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

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the bondholder may be limited by applicable bankruptcy law or other similar laws related to insolvency.

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

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement.

THE MASTER DISTRICT

Description	Harris County Municipal Utility District No. 500 (the “District,” the “Master District,” or “MUD 500”), a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), dated June 25, 2007, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is located within the extra-territorial jurisdiction of the City of Houston approximately 25 miles northwest of the central business district, and lies wholly within Harris County, Texas. The District is accessed via State Highway 290, exiting Barker-Cypress Road, and traveling south to Tuckerton Road. The Master District also serves as a provider of regional water, sanitary sewer, drainage, park/recreational and road facilities to the approximately 2,112 acre service area (the “Service Area”) comprised of the District (79.94 total acres), Harris County Municipal Utility District No. 501 (“MUD 501”)(929.17 total acres), Harris County Municipal Utility District No. 502 (“MUD 502”)(882.75 total acres), and Harris County Municipal Utility District No. 503 (“MUD 503”)(219.95 total acres). The District, MUD 501, MUD 502, and MUD 503 have executed Contracts for the Financing, Operation, and Maintenance of Regional Facilities, as amended (the “Master District Contract”) and are referred to herein collectively as the “Participants.” The District, in its capacity as a participant, has authorized submission of a request to the City of Houston to consent to the District’s annexation of approximately 11.78 acres into its boundaries. The Participants have consented to an expansion of the Service Area to include such 11.78 acres. The Master District expects to consider approval of such expansion upon receipt of consent from the City of Houston to the annexation. The District makes no representation regarding whether the City of Houston will consent to the annexation or the timing for same, whether the annexation will occur, and correspondingly, whether the Master District Service Area will be expanded by approximately 11.78 acres. See “MASTER DISTRICT CONTRACT.”
Authority.....	The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “MASTER DISTRICT CONTRACT.”
Status of Development.....	Development of the Service Area currently consists of residential and commercial development within the District, MUD 501, and MUD 502. To date, MUD 501 has been developed as 1,462 lots, one elementary school and one middle school (Sections 5, 7-10, 13-20, 22-32, 37, 39 Replat 1, 40, 41 and 44). As of May 1, 2019, there were 1,117 occupied homes, 2 unoccupied homes, 57 homes under construction and 70 vacant lots. The District, in its capacity as a Participant, has approximately 62.1 developed acres, approximately 10.2 acres undeveloped but developable and approximately 7.6 acres that are undevelopable. To date, MUD 501 has approximately 588 developed acres, approximately 49 acres undeveloped but developable and approximately 292 acres that are undevelopable. To date, MUD 502 has been developed as 1,099 lots (Sections 32, 32 Replat 1, 33-36, 38, 42-43, 45-47, and 49-52). As of August 1, 2018, there were 467 occupied homes, 1 unoccupied home, 154 homes under construction, and 260 vacant lots. MUD 502 has 356

developed acres, approximately 214 acres undeveloped but developable and approximately 312.3 acres that are undevelopable. MUD 503 consists of approximately 220 acres that are currently undeveloped.

In the District, commercial development includes a 136,000 square foot Kroger grocery store with retail space, a 5,000 square foot HSD Learning Academy, a Bank of America, a McDonald’s restaurant, a Chick-Fil-A restaurant, a Torchy’s Tacos that opened March 2018, an Avanti senior living facility, and a North Cypress Emergency Care Clinic. Twelve acres have been developed as the Lakeview Lofts Apartments (366 units, approximately 95% leased). The Boardwalk at Towne Lake Phase I, which is on approximately 10.5 acres and includes approximately 116,000 square foot of retail, restaurant and office space, opened in March 2016. There is no single-family residential development in the District. See “THE MASTER DISTRICT – Status of Development.”

- The Developer The principal developer of land within the Service Area is CW SCOA West, L.P. See “THE DEVELOPER.”
- Homebuilders The homebuilders active within the Service Area are Lennar Homes, Partners in Building, M&M Homebuilders, Frontier Custom Homes, Jamestown Estate Homes, David Weekley Homes, Coventry Homes (MHI), Newmark Homes, Trendmaker Homes, Jaeger Homes, Ryland Homes, Keechi Creek Builders, Braziel Building Group, Brickland Homes, Highland Homes, Legend Homes, Ravenna Homes, Toll Brothers, and Plantation Homes (MHI). See “THE DEVELOPER – Lot Sales Contracts.”
- Master Facilities The Master District, in its capacity as the provider of facilities for regional water, sanitary sewer, drainage (“Master District Water/Sewer/Drainage Facilities”), park/recreational and road purposes necessary to serve the Service Area (collectively referred to as the “Master District Facilities”), has or will construct the Master District Facilities and provide service from those Master District Facilities. See “RISK FACTORS – Maximum Impact on Contract Tax Rate” and “THE SYSTEM – Master Facilities.”

THE BONDS

- The Issuer The Master District, a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE MASTER DISTRICT.”
- The Issue..... Harris County Municipal Utility District No. 500 \$12,615,000 Contract Revenue Bonds (Water, Sewer and Drainage Facilities), Series 2019 (the “Bonds”). Interest accrues from July 1, 2019, and the Bonds mature in serial installments on December 1, 2020 through December 1, 2031, inclusive, as well as on December 1 in the years 2034, 2035, 2041 and 2042, and as term bond maturing on December 1 in the years 2033, 2037, 2040 and 2044. Interest is payable December 1, 2019, and on each June 1 and December 1 thereafter until maturity or prior redemption. Bonds maturing on or after December 1, 2026, are subject to redemption prior to maturity at the option of the Master District, in whole or from time to time in part, on December 1, 2025, or on any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – General” and “— Redemption Provisions.”
- Source of Payment..... Principal of and interest on the Bonds are payable from and secured by unconditional obligations of the Participants to make certain payments pursuant to the Master District Contract (the “Water/Sewer/Drainage Contract Payments”). By execution of the Master District Contract, each Participant has agreed to pay a pro rata share of the debt service on the Bonds based upon the appraised value subject to taxation plus amounts

equal to any optional exemption or special appraisal value granted or adopted by a Participant, and any optional exemption or special value claimed by a landowner due to use for agricultural, open space, timberland, or other similar uses (the "Gross Certified Appraised Valuation") of each Participant as a percentage of the Gross Certified Appraised Valuation of all Participants, calculated annually. Each Participant is obligated to make such payments from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by such Participant for such purpose on taxable property within its boundaries (the "Water/Sewer/Drainage Contract Tax"), or from any other lawful source of such Participant's income. No Participant is liable for the payments owed by any other Participant; however, failure of any Participant to make its Water/Sewer/Drainage Contract Payment, as required by the Master District Contract, could result in an increase in the Water/Sewer/Drainage Contract Payment amount paid by each of the other Participants during the time that such Participant's payment is delinquent. The Bonds are obligations of the Master District and are not obligations of the State of Texas, Harris County, the City of Houston, any of the Participants except the Master District, or any entity other than the Master District. See "THE BONDS – Source and Security of Payment," "– Unconditional Obligation to Pay" and "MASTER DISTRICT CONTRACT."

The Bonds, and the contract revenue bonds that have been previously issued or are hereafter issued by the Master District for the purpose of purchasing or acquiring regional water, sewer, and drainage facilities and refunding purposes (collectively, the "Water/Sewer/Drainage Contract Revenue Bonds"), are secured by a November 1, 2010, Indenture of Trust (the "Water/Sewer/Drainage Indenture") by and between the Master District and The Bank of New York Mellon Trust Company, N.A., Houston, Texas, as trustee (the "Trustee"). Pursuant to the Water/Sewer/Drainage Indenture, the Master District has assigned to the Trustee for the benefit of the Bonds and all other Water/Sewer/Drainage Contract Revenue bonds issued by the Master District under the terms of the Water/Sewer/Drainage Indenture all of the Master District's right, title and interest in and to the Water/Sewer/Drainage Contract Payments under the Master District Contract, and the Trustee has the right to assert and enforce all of the Master District's rights and remedies under the Master District Contract relating to the Water/Sewer/Drainage Contract Revenue Bonds in the event of a default. Under the Water/Sewer/Drainage Indenture, the Trustee maintains a debt service fund for deposit of the Water/Sewer/Drainage Contract Payments in an amount equal to principal and interest due on the Water/Sewer/Drainage Contract Revenue Bonds (the "Water/Sewer/Drainage Debt Service Fund"), and a reserve fund to be used to pay principal of and interest on the Water/Sewer/Drainage Contract Revenue Bonds when insufficient funds are available for such purpose in the Water/Sewer/Drainage Debt Service Fund, or to pay the principal of and interest on the Water/Sewer/Drainage Contract Revenue Bonds in connection with refunding or redemption (the "Water/Sewer/Drainage Reserve Fund"). See "THE INDENTURE OF TRUST." The Water/Sewer/Drainage Reserve Requirement has been established in the resolution authorizing the issuance of the Bonds to be a sum of money equal to one-half of the maximum annual debt service requirements on the Water/Sewer/Drainage Contract Revenue Bonds then outstanding. Any funds in excess of the Water/Sewer/Drainage Reserve Requirement held in the Water/Sewer/Drainage Reserve Fund may be deposited into the Water/Sewer/Drainage Debt Service Fund, as directed by the Master District's Board of Directors.

Use of Proceeds	Proceeds of the Bonds will be used by the Master District to pay for the items shown herein under “SOURCE AND USES OF FUNDS.” In addition, Bond proceeds will be used (1) to deposit into the Water/Sewer/Drainage Reserve Fund an amount needed to satisfy the Reserve Requirement associated with the issuance of the Bonds, (2) to pay interest on funds advanced by a developer on behalf of the District, and (3) to pay certain other costs related to the issuance of the Bonds. See “SOURCE AND USES OF FUNDS.”
Authority for Issuance	<p>The Bonds are the ninth series of contract revenue bonds issued by the Master District pursuant to the Master District Contract for the purpose of purchasing and constructing the Master District Water/Sewer/Drainage Facilities. The Master District has previously issued eight series of Water/Sewer/Drainage Contract Revenue Bonds, one series of Water/Sewer/Drainage Contract Revenue Refunding Bonds and three series of Road Contract Revenue Bonds (defined herein). To provide facilities for the entire Service Area, the Master District is authorized by the Master District Contract to issue contract revenue bonds (“Contract Revenue Bonds”): (i) in an amount not to exceed \$754,660,000 in principal amount for the purpose of constructing and acquiring all regional water, sanitary sewer and drainage facilities and for the purpose of refunding same; (ii) in an amount not to exceed \$64,550,000 in principal amount for the purpose of constructing and acquiring all regional park/recreational facilities and for the purpose of refunding same; and (iii) in an amount not to exceed \$350,600,000 in principal amount for the purpose of constructing and acquiring all regional road facilities and for the purpose of refunding same. Any additional Water/Sewer/Drainage Contract Revenue Bonds issued by the Master District will be on parity with the Bonds.</p> <p>The Bonds are issued pursuant to the Master District Contract, an order of the TCEQ, a resolution authorizing the issuance of the Bonds (the “Bond Resolution”), the Water/Sewer/Drainage Indenture, the Texas Constitution and the general laws of the State of Texas. See “RISK FACTORS – Future Debt,” and “THE BONDS – Authority for Issuance” and “–Issuance of Additional Debt.”</p>
Tax-Exempt Obligations.....	The Bonds will not be “qualified tax-exempt obligations” within the meaning of the Internal Revenue Code of 1986, as amended.
Other Contract Revenue Bonds	Pursuant to an Indenture of Trust dated January 1, 2015 (The “Road Indenture”) between the Master District and The Bank of New York Mellon Trust Company, N.A., the Master District has issued, and is expected to further issue in the future, contract revenue bonds for the purpose of purchasing or acquiring regional road facilities and refunding purposes (“Road Contract Revenue Bonds”). The Master District Contract obligates each Participant to pay a pro rata share of the debt service on the contract revenue bonds issued under the Road Indenture based upon the Gross Certified Appraised Valuation of each Participant as a percentage of the Gross Certified Appraised Valuation of all Participants, calculated annually. Each Participant is obligated to make such payments (“Road Contract Payments”) from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by such Participant for such purpose on taxable property within its boundaries (“Road Contract Tax”), or from any other lawful source of such Participant’s income. Pursuant to a further indenture of trust or an amendment to the Water/Sewer/Drainage Indenture, the Master District is expected to issue in the future contract revenue bonds for the purpose of purchasing or acquiring regional park and recreational facilities and for refunding purposes (“Park Contract Revenue Bonds”). The Master District Contract obligates each Participant to pay a pro rata share of the debt service on the Park Contract Revenue Bonds based upon the Gross

Certified Appraised Valuation of each Participant as a percentage of the Gross Certified Appraised Valuation of all Participants, calculated annually. Each Participant is obligated to make such payments (“Park Contract Payments”) from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by such Participant for such purpose on the taxable property within its boundaries (“Park Contract Tax”), or from any other lawful source of such Participant’s income. Road Contract Payments (all of which are derived from the Road Contract Tax or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any additional Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. Park Contract Payments (all of which are expected to be derived from the Park Contract Tax, Water/Sewer/Drainage Contract Tax, or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any additional Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. Water/Sewer/Drainage Contract Payments (all of which are derived from the Water/Sewer/Drainage Contract Tax or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Road Contract Revenue Bonds or Park Contract Revenue Bonds (unless the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds); or (ii) fund or maintain the Road Reserve Fund or any reserve fund that may be created in connection with Park Contract Revenue Bonds (unless the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds).

The Water/Sewer/Drainage Contract Tax, any potential Park Contract Tax, and the Road Contract Tax are referred to herein collectively as the “Contract Tax;” the Road Contract Revenue Bonds, Water/Sewer/Drainage Contract Revenue Bonds, and Park Contract Revenue Bonds are referred to herein collectively as the “Contract Revenue Bonds;” and the Road Contract Payment, Water/Sewer/Drainage Contract Payment, and Park Contract Payment are referred to herein collectively as the “Contract Payment.”

Payment Record..... The Master District previously has issued \$114,235,000 principal amount of Contract Revenue Bonds, \$108,565,000 of which remains outstanding (the “Outstanding Bonds”). The District has never defaulted in the timely payment of principal of or interest on any of its bonds issued to date.

Municipal Bond Rating and Insurance S&P Global (“S&P”), a Standard & Poor’s Financial Services LLC business, and Moody’s Investors Services Inc. (“Moody’s”) are expected to assign their municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (See “MUNICIPAL BOND INSURANCE”). Additionally, Moody’s has assigned the Bonds an underlying rating of “Baa1.” An explanation of the significance of such ratings may be obtained from S&P and Moody’s. These ratings reflect only the views of S&P and Moody’s, and the District makes no representation as to the appropriateness of such ratings. Further, there is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely, if circumstances so warrant. Any such downward revisions or withdrawal of the ratings may have an adverse effect on the trading value and the market price of the Bonds. The purchase of such insurance and payment of all associated costs,

including the premium charged by the insurer, and fees charged by any rating companies other than Moody's, will be at the expense of the Initial Purchaser. See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE".

Legal Opinion Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS."
Disclosure Counsel Norton Rose Fulbright US LLP, Houston, Texas.
Financial Advisor RBC Capital Markets, LLC, Houston, Texas.
Paying Agent/Registrar/Trustee..... The Bank of New York Mellon Trust Company, N.A., Houston, Texas.

THE MASTER DISTRICT CONTRACT

Participants The District (in its capacity as a Participant), MUD 501, MUD 502, and MUD 503 have contracted with the Master District as the Participants. Each Participant is a municipal utility district organized and operating pursuant to Article XVI, Section 59 and Article III, Section 52 of the Constitution of Texas and Chapters 49 and 54, Texas Water Code, as amended, to provide water supply and distribution, wastewater collection and treatment, storm drainage, road, and park and recreation services to the area within their boundaries. See "THE PARTICIPANTS" and "APPENDIX A."
Water and Sewer Revenue In addition to obligating each Participant to pay its Water/Sewer/Drainage Contract Payments and Road Contract Payments, the Master District Contract also obligates each Participant to pay monthly charges to the Master District for water and sewer services rendered pursuant to the Master District Contract. The monthly charges paid by each Participant to the Master District will be used to pay operations and maintenance expenses and to provide an operation and maintenance reserve equivalent to three months of operations and maintenance expenses. The Master District Contract provides that each Participant will establish, maintain and from time to time adjust its rates, fees and charges for use of its wastewater collection system and water distribution system, or for the availability of such services, to the end that the gross revenues therefrom together with any taxes levied in support thereof and funds received from any other lawful source will be sufficient at all times to pay all operation and maintenance expenses of the Participant's water distribution and wastewater collection system and its obligations to the Master District under the Master District Contract, including its obligation to pay its Contract Payment. The Master District does not expect that revenues from the Participants' wastewater collection and water distribution system will ever be sufficient to pay a significant portion of Contract Payments for application to debt service on the Contract Revenue Bonds, including the Bonds. See "MASTER DISTRICT CONTRACT."

RISK FACTORS

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

SELECTED FINANCIAL INFORMATION

(UNAUDITED)

Water/Sewer/Drainage Contract Revenue Bonds of the Master District

2018 Total Market Valuation of the Participants (100% of Market) (a).....	\$977,117,665
2018 Certified Taxable Assessed Valuation of the Participants (b)	\$877,368,732
Estimated Taxable Assessed Valuation of the Participants at January 1, 2019 (c).....	\$1,012,295,505

Direct Debt:

Outstanding Bonds	\$108,565,000
The Bonds.....	<u>12,615,000</u>
Total	\$121,180,000

Estimated Overlapping Debt (d).....	\$ 71,269,138
Total Direct and Estimated Overlapping Debt.....	<u>\$192,449,138</u>

Ratios of Gross Direct Debt to:

2018 Certified Taxable Assessed Valuation.....	13.81%
Estimated Taxable Assessed Valuation	11.97%

Ratios of Gross Direct Debt and Estimated Overlapping Debt to:

2018 Certified Taxable Assessed Valuation.....	21.93%
Estimated Taxable Assessed Valuation	19.01%

- (a) The 2018 Total Market Value (the "Market Value") as provided by the Harris County Appraisal District ("HCAD") as of certification dated May 22, 2019 includes HCAD's appraisal of total market value of the Participants, and includes all Market Uncertified value. The Market Value does not exclude exempt property or other exemptions. See "TAXING PROCEDURES." The Market Value is included for information only, and may not be used to assess ad valorem taxes in the Participants. The Market Value as calculated by HCAD may not reflect what property could sell for in the Participants.
- (b) The 2018 Certified Taxable Assessed Value includes the current certified portion as provided by HCAD as of supplement 8. See "TAXING PROCEDURES."
- (c) Provided by HCAD for information purposes only, this amount is an estimate of the value of all taxable property located within the District, MUD 501, MUD 502 and MUD 503 as of January 1, 2019, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2018, through January 1, 2019. Moreover, this estimate is prior to any protests and the ultimate Assessed Valuation of any improvements added from January 1, 2018, through December 31, 2018, which will be placed on each Participant's 2019 tax roll, may vary significantly from such estimate once the HCAD Review Board certifies the value thereof in 2019. See "TAXING PROCEDURES."
- (d) See "DISTRICT DEBT – Estimated Overlapping Debt."

Assessed Valuations of the Participants

HC MUD No.	Certified Taxable Value (a)	Master District Percentage	Estimated Taxable Value at 01/01/2019 (b)	Master District Percentage
500	\$142,102,882	16.20%	\$143,600,289	14.19%
501	532,106,637	60.65%	566,555,238	55.97%
502	194,020,621	22.11%	293,001,574	28.94%
503	9,138,592	1.04%	9,138,404	0.90%
Total	\$877,368,732	100.00%	\$1,012,295,505	100.00%

- (a) The 2018 Certified Taxable Assessed Value includes the current certified portion as provided by HCAD as of supplement 8. See "TAXING PROCEDURES." The Certified Taxable Assessed Value is distinct and different from the Certified Appraised Value as defined by the Master District Contract.
- (b) Provided by HCAD for information purposes only, this amount is an estimate of the value of all taxable property located within the District, MUD 501, MUD 502 and MUD 503 as of January 1, 2019, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2018, through January 1, 2019. Moreover, this estimate is prior to any protests and the ultimate Assessed Valuation of any improvements added from January 1, 2018, through December 31, 2018, which will be placed on each Participant's 2019 tax roll, may vary significantly from such estimate once the HCAD Review Board certifies the value thereof in 2019. See "TAXING PROCEDURES."

Status of Development as of May 1, 2019

District	Total Acreage	Completed Lots	Occupied Completed Homes	Unoccupied Completed Homes	Homes Under Construction	Vacant Developed Lots	Total Active Water Accounts
Harris Co. MUD No. 500 (a)	79.94	1	1 (b)	0	0	0	44
Harris Co. MUD No. 501	929.17	1,462	1,117	2	57	70	1,211
Harris Co. MUD No. 502	882.75	1,099	467	1	154	260	653
Harris Co. MUD No. 503	<u>219.95</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>2,111.81</u>	<u>2,562</u>	<u>1,585</u>	<u>3</u>	<u>211</u>	<u>330</u>	<u>1,908</u>

- (a) There is no single-family residential development in the District.
 (b) Includes one multi-family apartment project consisting of 366 units.

Master District Water/Sewer/Drainage Debt Service Funds Available as of June 5, 2019

Water/Sewer/Drainage Reserve Fund (a) (b) (c)	\$2,514,534.14
Water/Sewer/Drainage Debt Service Fund (b) (c)	<u>\$3,820,647.04</u>
Total (b) (c).....	\$6,335,181.18

Master District Road Debt Service Funds Available as of June 5, 2019

Road Reserve Fund (b) (c)	\$1,024,318.53
Road Debt Service Fund (b) (c)	<u>\$1,460,190.77</u>
Total (b) (c).....	\$2,484,509.30

Master District Operating Funds Available as of June 5, 2019 \$638,069.54

Projected Debt Service Requirements for Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds

Maximum Annual Debt Service Requirement (2042) (“MADS”)	\$7,526,500
Average Annual Debt Service Requirement (2019-2044)	\$7,109,313

- (a) An additional \$251,150 will be deposited into Water/Sewer/Drainage Reserve Fund from proceeds of the Bonds.
 (b) All of the Master District's Contract Revenue Bond debt is payable from Contract Taxes as follows: (i) the Road Contract Tax with respect to Road Contract Revenue Bonds, and (ii) the Water/Sewer/Drainage Contract Tax with respect to the Water/Sewer/Drainage Contract Revenue Bonds. The revenues from the Water/Sewer/Drainage Contract Tax will be allocated to the Water/Sewer/Drainage Contract Revenue Bonds, including the Bonds (and potentially also to the Park Contract Revenue Bonds if the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds), and the revenues from the Road Contract Tax will be allocated to Road Contract Revenue Bonds. The Road Debt Service Fund and Road Reserve Fund are not pledged to the Water/Sewer/Drainage Contract Revenue Bonds and the Water/Sewer/Drainage Debt Service Fund and Water/Sewer/Drainage Reserve Fund are not pledged to the Road Contract Revenue Bonds. See “SOURCE AND USES OF FUNDS” and “SELECTED FINANCIAL INFORMATION – Debt Service Requirements.”
 (c) Each Participant is obligated to pay a pro rata share of debt service on the Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds by the dates specified by the Master District. See “THE BONDS - Water/Sewer/Drainage Contract Payments by the Participants”, “-Unconditional Obligation to Pay” and “MASTER DISTRICT CONTRACT.” The Master District has specified March 1 and September 1 as the dates by which the Participants are required to pay contract payments that are due for Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds. The Water/Sewer/Drainage Indenture provides that the Water/Sewer/Drainage Contract Payments will be paid directly to the Trustee semiannually on or before June 1 and December 1 of each year, and the Road Indenture provides that the Road Contract Payments will be paid directly to the Trustee semiannually on or before June 1 and December 1 of each year.

Selected Tax Data

District	2018 Debt Service Tax	2018 Maintenance Tax	2018 Contract Tax	Total 2018 Direct Tax Rate
Harris Co. MUD No. 500	\$0.160	\$0.130	\$0.910	\$1.200
Harris Co. MUD No. 501	0.250	0.015	0.920	1.185
Harris Co. MUD No. 502	0.360	0.190	0.950	1.500
Harris Co. MUD No. 503	0.000	0.550	0.950	1.500

Debt Service Requirements

Year Ended	Outstanding	Contract Revenue Bonds (W, S & D), Series 2019 - The Bonds				New
	Total	Principal	Interest		Total Principal	
	31-Dec Debt Service	Due 12/1	Due 6/1	Due 12/1	& Interest	
2019	\$6,805,021.25	\$0.00	\$0.00	\$170,947.92	\$170,947.92	\$6,975,969.17
2020	6,807,013.75	205,000.00	205,137.50	205,137.50	615,275.00	7,422,288.75
2021	6,804,766.25	220,000.00	200,012.50	200,012.50	620,025.00	7,424,791.25
2022	6,808,373.75	225,000.00	194,512.50	194,512.50	614,025.00	7,422,398.75
2023	6,801,768.75	245,000.00	188,887.50	188,887.50	622,775.00	7,424,543.75
2024	6,811,068.75	250,000.00	182,762.50	182,762.50	615,525.00	7,426,593.75
2025	6,815,638.75	255,000.00	176,512.50	176,512.50	608,025.00	7,423,663.75
2026	6,828,353.75	255,000.00	170,137.50	170,137.50	595,275.00	7,423,628.75
2027	6,827,266.25	270,000.00	164,400.00	164,400.00	598,800.00	7,426,066.25
2028	6,841,753.75	270,000.00	160,350.00	160,350.00	590,700.00	7,432,453.75
2029	6,839,236.25	285,000.00	156,300.00	156,300.00	597,600.00	7,436,836.25
2030	6,850,610.00	290,000.00	152,025.00	152,025.00	594,050.00	7,444,660.00
2031	6,849,375.00	305,000.00	147,675.00	147,675.00	600,350.00	7,449,725.00
2032	6,856,837.50	310,000.00	143,100.00	143,100.00	596,200.00	7,453,037.50
2033	6,861,381.25	320,000.00	138,450.00	138,450.00	596,900.00	7,458,281.25
2034	6,882,550.00	315,000.00	133,650.00	133,650.00	582,300.00	7,464,850.00
2035	6,901,318.75	315,000.00	128,925.00	128,925.00	572,850.00	7,474,168.75
2036	6,905,793.75	325,000.00	124,200.00	124,200.00	573,400.00	7,479,193.75
2037	6,927,281.25	320,000.00	119,325.00	119,325.00	558,650.00	7,485,931.25
2038	6,748,850.00	515,000.00	114,525.00	114,525.00	744,050.00	7,492,900.00
2039	6,896,593.75	395,000.00	106,800.00	106,800.00	608,600.00	7,505,193.75
2040	6,899,668.75	410,000.00	100,875.00	100,875.00	611,750.00	7,511,418.75
2041	6,925,406.25	405,000.00	94,725.00	94,725.00	594,450.00	7,519,856.25
2042	6,954,200.00	395,000.00	88,650.00	88,650.00	572,300.00	7,526,500.00
2043	572,000.00	2,690,000.00	82,725.00	82,725.00	2,855,450.00	3,427,450.00
2044	0.00	2,825,000.00	42,375.00	42,375.00	2,909,750.00	2,909,750.00
	\$165,022,127.50	\$12,615,000.00	\$3,517,037.50	\$3,687,985.42	\$19,820,022.92	\$184,842,150.42

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 500 (the “Master District” or the “District”) of its \$12,615,000 Contract Revenue Bonds (Water, Sewer and Drainage Facilities), Series 2019 (the “Bonds”).

The Bonds are issued pursuant to the Contract for Financing, Operation, and Maintenance of Regional Facilities, as amended (the “Master District Contract”), between the Master District and each of the Participants (as defined below), Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the Master District (the “Board”) and a November 1, 2010, Indenture of Trust (the “Water/Sewer/Drainage Indenture”) by and between the Master District and The Bank of New York Mellon Trust Company, N.A., Houston, Texas, as trustee (the “Trustee”).

This Official Statement includes descriptions, among others, of the Bonds, the Bond Resolution, and the Water/Sewer/Drainage Indenture, certain other information about the “Participants” (currently the District, Harris County Municipal Utility District No. 501 (“MUD 501”), Harris County Municipal Utility District No. 502 (“MUD 502”) and Harris County Municipal Utility District No. 503 (“MUD 503”)), certain other information about the District, in both its capacity as the Master District and as a Participant, the approximate 2,112 acre area (the “Service Area”) to be provided with services by the Master District through its regional water, wastewater, drainage, road, and park and recreational facilities (the “Master District Facilities”) and the Master District Contract. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents referenced herein may be obtained from the District, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

RISK FACTORS

General

The Bonds are limited obligations solely of the Master District and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; any of the Participants except the Master District; or any entity other than the Master District. The Water/Sewer/Drainage Contract Revenue Bonds, including the Bonds, are payable solely from and to the extent of certain contract payments received by the Master District from the Participants pursuant to the Master District Contract, with each Participant’s annual contract payment being equal to its pro rata share of annual debt service on the Water/Sewer/Drainage Contract Revenue Bonds, including the Bonds, plus all charges and expenses of paying agents, registrars and trustees, and all amounts required to establish and maintain funds, including the Water/Sewer/Drainage Reserve Fund, established under the Bond Resolution or the Water/Sewer/Drainage Indenture, based upon the Gross Certified Appraised Valuation of each such Participant as a percentage of the total Gross Certified Appraised Valuation of all Participants (the “Water/Sewer/Drainage Contract Payment(s)”). The obligations of the Participants to make Water/Sewer/Drainage Contract Payments are several, not joint, obligations pro-rated among the Participants based upon the proportion of the Gross Certified Appraised Valuation of property within their respective boundaries to the total Gross Certified Appraised Valuation of property within all of the Participants as described herein. No Participant is obligated to pay the Water/Sewer/Drainage Contract Payments allocated to any other Participant; however, lack of payment by any Participant could result in an increase in the Water/Sewer/Drainage Contract Payment amount paid by each of the other Participants during the time that such Participant’s payment is delinquent. The security for payment of the principal of and interest on the Bonds by the Master District therefore depends on the ability of each Participant to collect annual ad valorem taxes (without legal limit as to rate or amount) levied on taxable property within its boundaries sufficient to make its Water/Sewer/Drainage Contract Payments. See “Registered Owners’ Remedies and Bankruptcy Limitations” below and “THE BONDS – Source and Security of Payment.”

Pursuant to an Indenture of Trust dated January 1, 2015 (the “Road Indenture”), by and between the Master District and The Bank of New York Mellon Trust Company, N.A., the Master District has issued, and is expected to issue, contract revenue bonds for the purpose of purchasing or acquiring regional road facilities (“Road Contract Revenue Bonds”). The Master District Contract obligates each Participant to pay a pro rata share of the debt service on the Road Contract Revenue Bonds based upon the Gross Certified Appraised Valuation of each Participant as a percentage of the Gross Certified Appraised Valuation of all Participants, calculated annually. Each Participant is obligated to make such payments (“Road Contract Payments”) from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by such Participant for such purpose on taxable property within its boundaries (“Road Contract Tax”), or from any other lawful source of such Participant’s income.

Pursuant to a future indenture of trust or an amendment to the Water/Sewer/Drainage Indenture, the Master District is expected to issue in the future contract revenue bonds for the purpose of purchasing or acquiring regional park and recreational facilities (“Park Contract Revenue Bonds”). The Master District Contract obligates each Participant to pay a pro rata share of the debt service on the Park Contract Revenue Bonds based upon the Gross Certified Appraised Valuation of each Participant as a percentage of the Gross Certified Appraised Valuation of all Participants, calculated annually. Each Participant is obligated to make such payments (“Park Contract Payments”) from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by such Participant for such purpose on taxable property within its boundaries (“Park Contract Tax”), or from any other lawful source of such Participant's income.

Road Contract Payments (all of which are derived from the Road Contract Tax or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any additional Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. Park Contract Payments (all of which are expected to be derived from the Park Contract Tax, Water/Sewer/Drainage Contract Tax, or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any additional Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. Water/Sewer/Drainage Contract Payments (all of which are derived from the Water/Sewer/Drainage Contract Tax or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Road Contract Revenue Bonds or Park Contract Revenue Bonds (unless the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds); or (ii) fund or maintain the Road Reserve Fund or any reserve fund that may be created in connection with Park Contract Revenue Bonds (unless the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds).

The Water/Sewer/Drainage Contract Tax, any potential Park Contract Tax, and the Road Contract Tax are referred to herein collectively as the “Contract Tax;” the Road Contract Revenue Bonds, Water/Sewer/Drainage Contract Revenue Bonds, and Park Contract Revenue Bonds are referred to herein collectively as the “Contract Revenue Bonds;” and the Road Contract Payment, Water/Sewer/Drainage Contract Payment, and Park Contract Payment are referred to herein collectively as the “Contract Payment.”

Overlapping Debt and Tax Rates

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

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

In addition, property located within the Service Area is subject to taxation by various other governmental entities. See “TAX DATA – Estimated Overlapping Taxes.”

Environmental and Air Quality Regulations

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

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

Sanctions against a municipal utility district or other type of special purpose district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of

planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

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

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

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

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

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

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

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

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

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

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

The Master 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 Master 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 Master District’s inclusion in the MS4 Permit were required at a future date, the Master District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

In 2015, the EPA and the United States Army Corps of Engineers (“USACE”) promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on municipal utility districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of “waters of the United States.” In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of “waters of the United States” to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of “waters of the United States.” Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nationwide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved. Subsequently, on May 28, 2019, the U.S. District Court for the Southern District of Texas found that the CWR violated the notice-and-comment requirements of the Administrative Procedures Act, remanded the CWR to the EPA and USACE, and ordered that the preliminary injunction issued September 12, 2018, remain in place pending the proceedings on remand.

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

Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including permitting requirements.

Economic Factors and Interest Rates

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

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the Service Area. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the Service Area. In addition, since the Service Area is located approximately 25 miles from the central downtown business district of the City of Houston, the success of development within the Service Area and growth of Service Area taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies. A downturn in the economic conditions of Houston and the nation could adversely affect development and home-building plans in the Service Area and restrain the growth of the Service Area’s property tax base.

The Houston area economy is uniquely affected by oil and gas prices, and continued low prices could adversely affect the real estate market growth and maintenance of values in the Service Area.

Competition

The demand for and construction of single-family homes in the Service Area, which is approximately 25 miles from downtown Houston, could be affected by competition from other residential developments including other residential developments located in the northwestern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes near the Service Area and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the Service Area.

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

Dependence on Major Taxpayers and the Developer

The ten principal taxpayers of the District represent \$150,434,464 or 17.15% of the 2018 Certified Taxable Assessed Valuation of the Participants, which is \$877,368,732, which represents ownership in the Participants’ boundaries as of January 1, 2018 and one landowner, Arium Towne Lake Owners LLC, represents 4.85% or \$42,558,583 of such assessed value. The Developer represents \$24,079,392 or 2.74% of such value. See “TAX DATA – Principal Taxpayers.” If the Developer or another principal taxpayer were to default in the payment of taxes in an amount which exceeds the amount in the Water/Sewer/Drainage Debt Service Fund and the amount in the Water/Sewer/Drainage Reserve Fund, the ability of the District to make timely payment of debt service on the Bonds would be dependent on the ability of Participants to enforce and liquidate their tax liens, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in a Participant being forced to set an excessive tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required

by law, the Water/Sewer/Drainage Indenture, or the Bond Resolution to maintain any specified amount of surplus in its Water/Sewer/Drainage Debt Service Fund but is required to maintain the Water/Sewer/Drainage Reserve Fund to the Water/Sewer/Drainage Reserve Requirement, an amount equal to one-half of maximum annual debt service on the outstanding Water/Sewer/Drainage Contract Revenue Bonds. See “Tax Collections Limitations and Foreclosure Remedies” below, “TAXING PROCEDURES – Levy and Collection of Taxes” and “APPENDIX A.”

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

Operational Expenses

Each Participant is obligated to pay monthly charges to the Master District for its share of the Master District’s operation and maintenance expenses in connection with the Master District’s provision of service from the Master District Facilities. The monthly charges to be paid by each Participant to the Master District will be used to pay each Participant’s share of operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. Each Participant’s share of operation and maintenance expenses and reserve requirements is based upon a “unit cost” of operation and maintenance expense and reserve requirements, calculated by the Master District and expressed in terms of “cost per equivalent single-family residential connection.” Each Participant’s monthly payment to the Master District for operation and maintenance expenses will be calculated by multiplying the number of equivalent single-family residential connections reserved to each Participant on the first day of the previous month by the unit cost per equivalent single-family residential connection. The monthly cost per single family equivalent connection being charged by the Master District to each Participant is \$30.00, effective April 1, 2019. The Master District separately passes fees charged by the West Harris County Regional Water Authority through to the Participants, who are expected to then pass the fees on to their own customers. See “THE SYSTEM.”

Maximum Impact on Contract Tax Rate

Assuming no further development, the value of the land and improvements currently within the Participants will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2018 Certified Taxable Assessed Valuation of the property within the Participants is \$877,368,732, and the January 1, 2019 Estimated Taxable Assessed Valuation is \$1,012,295,505 (see “APPENDIX B”). After issuance of the Bonds, the maximum annual debt service requirement on the Bonds and the Outstanding Bonds will be \$7,526,500 (2042) and the average annual debt service requirements on the Bonds and the Outstanding Bonds will be \$7,109,313 (2019 through 2044, inclusive). Assuming no increase or decrease from the 2018 Certified Taxable Assessed Valuation, a tax rate of \$0.91 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement and a tax rate of \$0.86 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirements (see “TAX DATA – Tax Rate Calculations”). Assuming no increase or decrease from the January 1, 2019 Estimated Taxable Assessed Valuation, a tax rate of \$0.79 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement and a tax rate of \$0.74 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirements. The District, in its capacity as a Participant, levied a contract tax of \$0.91 per \$100 of assessed valuation for the 2018 tax year; MUD 501 levied a contract tax of \$0.92 per \$100 of assessed valuation for the 2018 tax year; MUD 502 levied a contract tax of \$0.95 per \$100 of assessed valuation for the 2018 tax year; and MUD 503 levied a contract tax of \$0.95 per \$100 of assessed valuation for the 2018 tax year.

Debt Burden on Property within the Participants

The Master District expects that each Participant (including the District in its capacity as a Participant) will derive funds to make its Water/Sewer/Drainage Contract Payments to the Master District from the collection of ad valorem taxes (without legal limit as to rate or amount) levied on all taxable property within its boundaries. In addition to the annual levy of a tax to make its annual Water/Sewer/Drainage Contract Payment, each Participant (including the District in its capacity as a Participant) is authorized, and expected, to levy a tax on property within its boundaries (without legal limit as to rate or amount) to pay annual principal and interest on bonds issued by the Participant, and to pay its operations and maintenance expenses. It is expected that if and when sufficient taxable value exists within each Participant, each Participant will issue bonds to finance the internal water, wastewater, and storm drainage

facilities within its boundaries at the earliest time permitted by the rules of the TCEQ. See “DISTRICT DEBT – Estimated Overlapping Debt,” and “APPENDIX A” for information on each Participant’s debt and taxes. In the event the Master District issued future Contract Revenue Bonds to fund regional park/recreational or additional road facilities, then each Participant will be required by the Master District Contract to also levy and collect a tax on property within its boundaries to pay the Participant’s pro rata share of debt service on such Contract Revenue Bonds. To date, the Master District has issued eight series of Water/Sewer/Drainage Contract Revenue Bonds and one series of Water/Sewer/Drainage Contract Revenue Refunding Bonds, pursuant to the Water/Sewer/Drainage Indenture. The Bonds are the ninth series of new money Water/Sewer/Drainage Contract Revenue Bonds. The Master District has issued three series of Road Contract Revenue Bonds, pursuant to the Road Indenture (defined herein). The Master District expects to issue a fourth series of Road Contract Revenue Bonds in mid-to-late 2019 and expects to issue Park Contract Revenue Bonds for the first time in early-to-mid 2020.

The Master District can make no representation that the taxable property values in the Participants’ boundaries will maintain a value sufficient to support the aforementioned Water/Sewer/Drainage Contract Payment or to justify continued payment of taxes by property owners. See “TAX DATA – Tax Rate Calculations,” and “APPENDIX A.”

The TCEQ rules permit the issuance of bonds by a Participant based, to a certain extent, upon projections of growth in ad valorem taxable value within the boundaries of the Participant. In the event those growth projections are not realized, the Participant’s tax rate to pay debt service on its bonds may increase in future years. The Master District has no control over such tax rate or the issuance of such bonds.

In addition, the composite tax rate to which property in each Participant is subject may be higher than the composite tax rate of property within other competing subdivisions. To the extent that such composite tax rate is not competitive, the growth of property tax values in each Participant and the investment quality or security of the Bonds could be adversely affected. The Master District has no control over such composite tax rate. See “Competition” above and “TAX DATA – Estimated Overlapping Taxes.”

Tax Collections Limitations and Foreclosure Remedies

The Master District’s ability to make debt service payments may be adversely affected by each Participant’s inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by a Participant constitutes a lien in favor of such Participant on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. A Participant’s ability to collect ad valorem taxes through such foreclosure may be impaired by cumbersome, time-consuming and expensive collection procedures or market conditions affecting the marketability of taxable property within the Participant’s boundaries and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any foreclosure sale of property within the boundaries of a Participant may be limited by the existence of other tax liens on the property (see “TAX DATA – Estimated Overlapping Taxes”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayer’s right to redeem property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the Participant’s boundaries pursuant to the Federal Bankruptcy Code could stay any attempt by such Participant to collect delinquent ad valorem taxes levied against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor’s confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes levied against the debtor, including taxes that have already been paid.

Registered Owners’ Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created or confirmed in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the registered owners of the Bonds (“Registered Owners”) have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, the Water/Sewer/Drainage Indenture provides certain limitations on the right of Registered Owners of the Bonds to institute suits, actions or proceedings at law or in equity upon the occurrence of an event of default. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government’s sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be

enforced by direct levy and execution against the property of the Master District or property within the Participants. Further, the Registered Owners cannot themselves foreclose on property within the Participants or sell property within the Participants to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See “THE INDENTURE OF TRUST - Remedies” and “- Limitation on Action by Owners.”

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

Pursuant to the Master District Contract, and in connection with the development of the Service Area, the Master District may issue Contract Revenue Bonds in an amount necessary to provide the Master District Facilities and to refund outstanding debt. Any future Water/Sewer/Drainage Contract Revenue Bonds will be on parity with the Bonds. The Master District may also issue Contract Revenue Bonds to finance roads and park and recreational facilities. The Master District anticipates that it will issue additional Contract Revenue Bonds. The Master District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of Contract Revenue Bonds which it may issue. The issuance of additional Contract Revenue Bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds, except that no TCEQ approval currently is required for the issuance of Contract Revenue Bonds to fund roads or for the refunding of Contract Revenue Bonds. See “Maximum Impact on Contract Tax Rate” above and “THE BONDS – Issuance of Additional Debt.”

Pursuant to the Master District Contract, the Master District may issue Contract Revenue Bonds in a principal amount not to exceed \$754,660,000 to provide regional water, sewer and drainage facilities and refunding of such bonds; in a principal amount not to exceed \$64,550,000 to provide regional park and recreational facilities and refunding of such bonds; and in a principal amount not to exceed \$350,600,000 to provide regional road facilities and refunding of such bonds. Pursuant to the Master District Contract, approval by each Participant and approval by the voters at an election held by each Participant is required prior to any amendment to the Master District Contract that would increase such \$754,660,000 authorized amount, such \$64,550,000 authorized amount, and/or such \$350,600,000 authorized amount. After the issuance of the Bonds, the Master District will have \$660,760,000 principal amount of Water/Sewer/Drainage Contract Revenue Bonds authorized but unissued, \$317,650,000 principal amount of Road Contract Revenue Bonds authorized but unissued, and all of the authorized bonds for Park Contract Revenue Bonds authorized but unissued. The Bonds, and all additional Water/Sewer/Drainage Contract Revenue Bonds issued by the Master District, will be payable from the Water/Sewer/Drainage Contract Tax, the Road Contract Revenue Bonds will be payable from the Road Contract Tax, and the Park Contract Revenue Bonds will be payable from the Park Contract Tax (or Water/Sewer/Drainage Contract Tax if the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds).

The Master District, including in its capacity as a Participant, has the right to issue obligations other than the Bonds, including unlimited tax bonds for the purpose of financing internal water, wastewater, drainage, road, and park and

recreational facilities within its boundaries, tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. As a Participant, not as the Master District, the District is authorized to issue a total of \$65,480,000 in principal amount of unlimited tax bonds for water, sewer, and drainage, roads and park facilities and for refunding purposes, of which \$2,000,000 principal amount has been issued and \$63,480,000 principal amount is authorized but unissued.

The Master District expects to issue Road Contract Revenue Bonds in mid-to-late 2019, and expects to issue Park Contract Revenue Bonds for the first time in early-to-mid 2020, both of which are in addition to the Bonds.

Marketability of the Bonds

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

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

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.

100-Year Flood Plain

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. The District’s drainage system has been designed and constructed to all then-existing standards. See “THE SYSTEM.”

Recent Extreme Weather Events; Hurricane Harvey

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

The greater Houston area, including the District, has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, the most recent of which was Hurricane Harvey which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days. According to the Master District’s operator, there was no interruption of water and sewer service in the District during or after the storm. According to the Master District’s engineer, the District’s system did not sustain any material damage from Hurricane Harvey. There was minor erosion in certain portions of the District’s detention facilities, which has been or is planned to be repaired. The District estimates the cost of such repairs to be \$67,511 and submitted claims to FEMA which have since been approved for reimbursement. Further, according to the Master District’s engineer, no taxable improvements within the Service Area experienced flooding or other material damage. Hurricane Harvey could have a material impact on the Houston region’s economy.

If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the Service Area, the assessed value of property within the Participants could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase each Participant’s tax rate. Further, there can be no assurance that a casualty loss to taxable property within any Participant will be covered by insurance (or that property owners

will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the Service Area. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the Participants would be adversely affected.

Reappraisal of Property

When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. None of the Participants requested a reappraisal for the 2018 tax year. See “TAXING PROCEDURES—Participant and Taxpayer Remedies.”

Tax Payment Installments

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

Specific Flood Type Risks

Riverine (or Fluvial) Flood.

Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow overland. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash floods are very dangerous and destructive not only because of the force of the water, but also the hurtling debris that is often swept up in the flow. They can occur within minutes or a few hours of excessive rainfall. They can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems (canals or channels) downstream.

Ponding (or Pluvial) Flood.

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

THE BONDS

General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution and the Water/Sewer/Drainage Indenture. Copies of the Water/Sewer/Drainage Indenture and the Bond Resolution may be obtained from the District upon request to Bond Counsel. The Water/Sewer/Drainage Indenture and the Bond Resolution authorize the issuance and sale of the Bonds and prescribe the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds will mature on December 1 of the years and in principal amounts, and will bear interest from July 1, 2019, at the rates per annum, set forth on the cover page of this Official Statement. Interest on the Bonds will be payable December 1, 2019 and semiannually thereafter on each June 1 and December 1 until maturity or redemption. Interest calculations are based on a 360-day year comprised of twelve 30-day months (“Interest Payment Date”). The Bonds are subject to redemption as described below.

The Bonds will be issued only in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A. in Houston, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date

of payment, is legal tender for the payment of debts due the United States of America. Principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, whether at maturity or by prior redemption, at the principal payment office of the Paying Agent/Registrar in Houston, Texas, and interest on each Bond shall be payable by check or draft dated as of the Interest Payment Date, mailed by the Paying Agent/Registrar on each Interest Payment Date to the registered owner of record (the "Registered Owner") as of the close of business on the fifteenth day of the month next preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owner at the risk and expense of the Registered Owner.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day without additional interest and with the same force and effect as if made on the specified date for such payment.

Registration, Transfer and Exchange

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

In the event the Book-Entry-Only System should be discontinued, Bonds shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefore, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented. All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution and the Water/Sewer/Drainage Indenture to the same extent as the Bond or Bonds in lieu of which such Bond is delivered. Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on the 15th calendar day of the month next preceding an Interest Payment Date and ending on the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond. The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District. The provisions of this paragraph are subject to the Book-Entry-Only System.

Mutilated, Lost, Stolen or Destroyed Bonds

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

Authority for Issuance

At separate elections held within the boundaries of each Participant, the voters of each Participant approved the Master District Contract. The Master District Contract authorizes the Master District to issue \$754,660,000 in principal amount of contract revenue bonds for acquiring and constructing Master District Water/Sewer/Drainage Facilities and refunding of such bonds. The Master District Contract also authorizes the Master District to issue other contract revenue bonds for other purposes. See "Issuance of Additional Debt" below.

The Bonds are issued by the Master District pursuant to the Water/Sewer/Drainage Indenture, the Master District Contract, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment, the sufficiency of the Water/Sewer/Drainage Pledged Revenues (hereinafter defined) to pay principal and interest on the Bonds or upon the adequacy of the information contained in this Official Statement.

Source and Security of Payment

The Bonds are payable solely from payments the Participants make to the Trustee for the purpose of paying the debt service on the Bonds pursuant to the requirements of the Master District Contract. The Master District Contract provides that all Participants shall pay a pro rata share of debt service on the Water/Sewer/Drainage Bonds issued by the Master District, including the Bonds, based upon each Participant's Gross Certified Appraised Valuation as a percentage of the Gross Certified Appraised Valuation in all Participants. The debt service requirements shall be calculated to include the charges and expenses of paying agents, registrars and trustees utilized in connection with the Water/Sewer/Drainage Contract Revenue Bonds, the principal, interest and redemption requirements of the Water/Sewer/Drainage Contract Revenue Bonds and all amounts required to establish and maintain funds established under the Bond Resolution or Water/Sewer/Drainage Indenture. Each Participant is obligated to pay its pro rata share of the annual debt service on the Water/Sewer/Drainage Contract Revenue Bonds from the proceeds of an annual ad valorem tax, which is not limited as to rate or amount, or from any other legally available funds of such Participant. Each Participant's pro rata share of debt service requirements will be calculated annually by the Master District; however, the levy of a Water/Sewer/Drainage Contract Tax for the purpose of paying debt service on the Water/Sewer/Drainage Contract Revenue Bonds is the sole responsibility of each Participant. The Bonds are obligations of the Master District and are not obligations of the State of Texas, Harris County, the City of Houston, any of the Participants (except the Master District in its capacity as the Master District and not in its capacity as a Participant), or any entity other than the Master District. See "THE INDENTURE OF TRUST."

The Water/Sewer/Drainage Bonds, including the Bonds, are secured by the Water/Sewer/Drainage Indenture. Pursuant to the Water/Sewer/Drainage Indenture, the Master District has assigned to the Trustee all of the Master District's right, title and interest in and to the Water/Sewer/Drainage Contract Payments required by the Master District Contract. See "THE INDENTURE OF TRUST."

Water/Sewer/Drainage Contract Payments by the Participants

Principal of and interest on the Bonds are payable from and secured by each Participant's unconditional obligation to make certain payments pursuant to the Master District Contract. By execution of the Master District Contract, each Participant has agreed to make a Water/Sewer/Drainage Contract Payment in an amount equal to its pro rata share of the annual debt service on the Water/Sewer/Drainage Contract Revenue Bonds plus all charges and expenses of paying agents, registrars and trustees, and all amounts required to establish and maintain funds, including the Water/Sewer/Drainage Reserve Fund, established under the Bond Resolution or Water/Sewer/Drainage Indenture based upon its Gross Certified Appraised Valuation as a percentage of the total Gross Certified Appraised Valuation of all of the Participants. Each Participant is obligated to make such payments from the proceeds of the Water/Sewer/Drainage Contract Tax levied by such Participant on property within its boundaries for such purpose, or from any other lawful source of funds. See "Source and Security of Payment" above. No Participant is liable for the payments due by any other Participant. See "MASTER DISTRICT CONTRACT." The Master District shall calculate on or before September 1 of each year, or as soon thereafter as practical, the amount of Water/Sewer/Drainage Contract Payments due from each Participant in the following calendar year. The Water/Sewer/Drainage Contract Payments shall be billed to each Participant by the Master District on or before September 1 of the year prior to the year in which such Water/Sewer/Drainage Contract Payments become due, or as soon thereafter as practical. Such Water/Sewer/Drainage Contract Payments shall be due and payable from each Participant to the Trustee semiannually by the dates specified by the Master District. The Master District specified March 1 and September 1 of each year as the dates by which the Participants' Contract Payments (including the Water/Sewer/Drainage Contract Payments) are due to the Trustee. The Water/Sewer/Drainage Indenture provides that the Water/Sewer/Drainage Contract Payments will be paid directly to the Trustee semiannually on or before June 1 and December 1 of each year.

Unconditional Obligation to Pay

All charges imposed by the Master District to pay debt service on the Bonds will be made by the Participants without set-off, counterclaim, abatement, suspension, or diminution, nor will any Participant have any right to terminate the Master District Contract nor be entitled to the abatement of any such payment or any reduction thereof nor will the obligations of the Participants be otherwise affected for any reason, including without limitation acts or conditions of the Master District that might be considered failure of consideration, eviction or constructive eviction, destruction or damage to the Master District Facilities, failure of the Master District to perform and observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or connected with the Master District Contract. All sums required to be paid by the Participants to the Master District for such purposes will continue to be payable

in all events and the obligations of the Participants will continue unaffected, unless the requirement to pay is reduced or terminated pursuant to an express provision of the Master District Contract. If any Participant disputes the amount to be paid to the Master District, the Participant shall nonetheless promptly make payments as billed by the Master District, and if it is subsequently determined by agreement, arbitration, regulatory decision, or court decision that such disputed payment should have been less, the Master District will then make proper adjustments to all Participants so that the appropriate Participant will receive credit for its over-payments. See “THE MASTER DISTRICT.”

Funds

In the Bond Resolution, the Water/Sewer/Drainage Debt Service Fund and the Water/Sewer/Drainage Reserve Fund are confirmed, and the proceeds from the Water/Sewer/Drainage Contract Payments collected for and on account of the Bonds shall be deposited, as collected in such funds. See “THE INDENTURE OF TRUST.”

Redemption Provisions

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on or after December 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on December 1, 2025, or any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be determined by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures, while the Bonds are in book-entry only form). If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000.

Mandatory Redemption: The Bonds due on December 1 in the years 2033, 2037, 2040 and 2044 (the “Term Bonds”) also are subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on December 1 in the years (“Mandatory Redemption Dates”) and in the amounts set forth below, at a redemption price of par plus accrued interest to the date of redemption:

\$630,000 Term Bonds Due December 1, 2033	
Mandatory Sinking Fund <u>Redemption Date</u>	Principal <u>Amount</u>
December 1, 2032	\$310,000
December 1, 2033 (maturity)	320,000
\$645,000 Term Bonds Due December 1, 2037	
Mandatory Sinking Fund <u>Redemption Date</u>	Principal <u>Amount</u>
December 1, 2036	\$325,000
December 1, 2037 (maturity)	320,000
\$1,320,000 Term Bonds Due December 1, 2040	
Mandatory Sinking Fund <u>Redemption Date</u>	Principal <u>Amount</u>
December 1, 2038	\$515,000
December 1, 2039	395,000
December 1, 2040 (maturity)	410,000
\$5,515,000 Term Bonds Due December 1, 2044	
Mandatory Sinking Fund <u>Redemption Date</u>	Principal <u>Amount</u>
December 1, 2043	\$2,690,000
December 1, 2044 (maturity)	2,825,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory

Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Notice of any redemption identifying the Bonds to be redeemed in whole or from time-to-time in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or from time-to-time in part at the address shown on the register.

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

Defeasance

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

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

There is no assurance that 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.

Issuance of Additional Debt

The Bonds are the ninth series of contract revenue bonds issued by the Master District pursuant to the Master District Contract for the purpose of purchasing and constructing the Master District Water/Sewer/Drainage Facilities. The voters of the Participants have approved the Master District Contract, which contract authorizes the Master District to issue Contract Revenue Bonds in an amount not to exceed \$754,660,000 in principal amount for the purpose of constructing and acquiring all Master District water, wastewater and drainage facilities and refunding of such bonds; in an amount not to exceed \$64,550,000 in principal amount for the purpose of constructing and acquiring all Master District park and recreational facilities and refunding of such bonds; and in an amount not to exceed \$350,600,000 in principal amount for the purpose of constructing and acquiring all Master District road facilities and refunding of such bonds. Pursuant to the Master District Contract, approval by each Participant and approval by the voters at an election held by each Participant is required prior to any amendment to the Master District Contract that would increase such \$754,660,000 authorized amount, such \$64,550,000 authorized amount, and/or such \$350,600,000 authorized amount. By execution of the Master District Contract between the Master District and each Participant, each Participant (including the District in its capacity as a Participant) is obligated to pay a pro rata share of debt service on the Contract Revenue Bonds issued by the Master District to finance the Master District Facilities. The Bonds, and all additional Water/Sewer/Drainage Contract Revenue Bonds issued by the Master District, will be payable from the Water/Sewer/Drainage Contract Tax, the Road Contract Revenue Bonds will be payable from the Road Contract Tax, and the Park Contract Revenue Bonds will be payable from the Park Contract Tax (or Water/Sewer/Drainage Contract Tax if the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds). After the issuance of the Bonds, the Master District will have \$660,760,000 principal amount of Water/Sewer/Drainage Contract Revenue Bonds authorized by unissued; \$64,550,000 principal amount of Park Contract Revenue Bonds authorized but unissued; and \$317,650,000 principal amount of Road Contract Revenue Bonds authorized but unissued. The Master District Contract (except as described above), the Water/Sewer/Drainage Indenture, the Road Indenture and the Bond Resolution impose no limitation on the amount of Contract Revenue Bonds the Master District may issue payable from the Contract Tax. See “RISK FACTORS – Future Debt.”

The District (in its capacity as a Participant) and each other Participant may issue bonds for water, wastewater, drainage, and park and recreational purposes, with the approval of the TCEQ, and for road purposes, necessary to provide and maintain improvements and facilities to serve land within their respective boundaries consistent with the purposes for which the District or such other Participant was created. TCEQ approval is not currently required for the District or any Participants to issue bonds for road facilities or for refunding purposes. See “THE PARTICIPANTS.”

Financing Parks and Recreational Facilities

The Master District and the Participants have each been authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. The Master District is authorized by the Master District Contract to issue \$64,550,000 principal amount of Contract Revenue Bonds for the regional park and recreational facilities to serve the Service Area (“Regional Park Facilities”) and refunding of such bonds. Before the District could issue any of such Contract Revenue Bonds for construction or acquisition of park/recreational facilities, the following actions would be required: (a) approval of the park projects and bonds by the Commission; and (b) approval of the bonds by the Attorney General of Texas. At such time as the Master District issues Park Contract Revenue Bonds, all Participants (including the District in its capacity as a Participant) would pay for their share of the debt service requirements on the Park Contract Revenue Bonds from ad valorem contract taxes levied by the Participants. Under Section 49.4645 of the Water Code, at the time of issuance, the outstanding principal amount of Park Contract Revenue Bonds issued by the Master District to finance park/recreational facilities may not exceed an amount equal to one percent of the value of the taxable property in the Participants. The Master District expects to issue Park Contract Revenue Bonds for the first time in early-to-mid 2020.

Financing Road Facilities

The Master District and the Participants have each been authorized by statute and order of the TCEQ to design, acquire, construct, finance, and issue bonds for arterial, collector, and thoroughfare roads. The Master District is authorized by the Master District Contract to issue \$350,600,000 principal amount of Road Contract Revenue Bonds for the regional arterial, collector and thoroughfare roadways to serve the Service Area (“Regional Road Facilities”) and refunding of such bonds. Before the District can issue any such road bonds, approval of the bonds by the Attorney General of Texas is required. The TCEQ does not currently have rules in place regulating the review and approval of road bond issues by districts. Under the Master District Contract, the Master District pays for the capital costs of designing and constructing the Regional Road Facilities through Road Contract Revenue Bonds. Participants (including the District in its capacity as a Participant) are required to pay for their share of the debt service requirements on the Road Contract Revenue Bonds from ad valorem contract taxes levied by Participants. The Master District issued Road Contract Revenue Bonds in 2015, 2016, and 2018 pursuant to the Road Indenture and expects to issue additional Road Contract Revenue Bonds in mid-to-late 2019.

Remedies in Event of Default

Other than a writ of mandamus, the Bond Resolution does not provide a specific remedy for a default. Upon the occurrence of an Event of Default (as defined herein), the Trustee may proceed to protect and enforce the rights of the Registered Owners of the Bonds. The Water/Sewer/Drainage Indenture provides certain limitations on Registered Owners of the Bonds to institute suits, actions or proceedings at law or in equity upon the occurrence of an Event of Default. If the District defaults, the Trustee or, if permitted, the Registered Owners could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Resolution and the Master District Contract. Such remedy might need to be enforced on a periodic basis and may prove time-consuming, costly, and difficult to enforce. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the property of the Master District or property within the Participants. Further, the Registered Owners cannot themselves foreclose on property within the Participants or sell property within the Participants to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "RISK FACTORS - Registered Owners' Remedies and Bankruptcy Limitations," "THE INDENTURE OF TRUST - Remedies" and "- Limitation on Action by Owners."

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.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in its nominee name. The District and the Financial Advisor believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payment 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 Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

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

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

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

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

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Resolution and summarized under "THE BONDS - Registration, Transfer and Exchange".

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

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SOURCE AND USES OF FUNDS

The proceeds of the Bonds will be used to finance the following items listed below. The District will also use the proceeds of the Bonds to retire the District's \$4,931,000 Bond Anticipation Note, Series 2019, to pay for costs related to the issuance of the Bonds, to pay developer interest, and to fund a deposit to the Water/Sewer/Drainage Reserve Fund.

<u>Construction Costs</u>	<u>District Share</u>
A. Developer Contribution Items - none	\$0
B. District Items	
1. Phase 1L Regional Detention Pond and Greenhouse Road Segment 6	472,319
2. Town Lake Parkway Section 2	243,207
3. Phase 1I Regional Detention Basin	1,805,515
4. Detention Ponds associated with Towne Lake Section 38	51,679
5. Detention Pond associated with Towne Lake Section 31	41,198
6. Phase 1J Phase 2 Regional Detention Pond	1,483,655
7. Water Plant No. 1 Expansion	761,679
8. Water Supply and Storage Facility No. 2	2,275,071
9. Contingencies (Item 6)	74,183
10. Engineering and Geotechnical (2, 3, 6, 8)	1,054,075
11. Storm Water Compliance (Items 2, 3, 6, 7, 8)	191,561
12. Erosion Control (Item 3)	103,236
13. Drainage Report	27,850
14. Coating Inspection Services (Item 7)	7,528
15. Coating Inspection Services (Item 8)	18,000
16. Land Acquisition Phase 1E Regional Detention Basin	681,996
17. Land Acquisition Phase 1G Regional Detention Basin	30,803
18. Land Acquisition Phase 1I Regional Detention Basin	182,058
19. Land Acquisition Phase 1L Regional Detention Basin	130,574
20. Land Acquisition Phase 1J Regional Detention Basin	147,102
Total District Items	\$9,783,289
TOTAL CONSTRUCTION COSTS	\$9,783,289
<u>Non-Construction Costs</u>	
A. Legal Fees	\$292,300
B. Fiscal Agent Fees	239,225
C. Interest	
1. Reserve Requirement	251,150
2. Developer Interest	618,313
3. Bond Anticipation Note Interest	147,930
D. Bond Discount	374,021
E. Bond Issuance Expenses	50,785
F. Bond Application Report	54,519
G. Bond Anticipation Note Expense	122,089
H. Lease/Purchase of Wastewater Treatment Plant (18 months of lease payments)	463,348
I. Attorney General Fee	9,500
J. TCEQ Bond Issuance Fee	31,538
I. Contingency	176,993
TOTAL NON-CONSTRUCTION COSTS	\$2,831,711
TOTAL BOND ISSUE REQUIREMENT	\$12,615,000

In the instance that estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for other uses. In the instance that actual costs exceed previously estimated amounts and contingencies, 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 pay for the costs of the items as described above. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE INDENTURE OF TRUST

The Water/Sewer/Drainage Contract Revenue Bonds, including the Bonds, are secured by the Water/Sewer/Drainage Indenture by and between the Master District to The Bank of New York Mellon Trust Company, N.A., Houston, Texas, as Trustee (the “Water/Sewer/Drainage Indenture”). Pursuant to the Water/Sewer/Drainage Indenture, the Master District has assigned to the Trustee all of the Master District’s right, title and interest in and to the Water/Sewer/Drainage Contract Payments under the Master District Contract. Such Water/Sewer/Drainage Contract Payments, together with all amounts from time to time on deposit in the Water/Sewer/Drainage Debt Service Fund and Water/Sewer/Drainage Reserve Fund maintained by the Trustee pursuant to the Water/Sewer/Drainage Indenture, together with any other property from time to time hereafter conveyed or granted to the Trustee shall constitute the “Water/Sewer/Drainage Pledged Revenues” held by the Trustee under the Water/Sewer/Drainage Indenture.

Pursuant to the Water/Sewer/Drainage Indenture, the Trustee is to maintain the Water/Sewer/Drainage Debt Service Fund and Water/Sewer/Drainage Reserve Fund as trust funds to be held in trust solely for the benefit of the Registered Owners of the Water/Sewer/Drainage Contract Revenue Bonds. The Master District has covenanted in the Water/Sewer/Drainage Indenture that it will cause to be charged to each Participant, for deposit into the Water/Sewer/Drainage Debt Service Fund, Water/Sewer/Drainage Contract Payments in amounts sufficient, together with other Water/Sewer/Drainage Pledged Revenues, to provide for the timely payment of all principal and interest due on the Water/Sewer/Drainage Contract Revenue Bonds. Subject to the provisions of applicable law and the Master District Contract, the Master District has covenanted in the Water/Sewer/Drainage Indenture to use its best efforts to cause to be paid by each Participant all Water/Sewer/Drainage Contract Payments when due directly to the Trustee. The Water/Sewer/Drainage Debt Service Fund and the Water/Sewer/Drainage Reserve Fund are to be invested only in investments authorized by the laws of the State of Texas but must be invested in a manner such that the money required to be expended from any fund will be available at the proper time or times. Amounts in the Water/Sewer/Drainage Reserve Fund shall be used to pay interest on and principal of the Bonds when insufficient funds are available for such purpose in the Water/Sewer/Drainage Debt Service Fund or shall be applied toward the payment of principal of or interest on the Water/Sewer/Drainage Contract Revenue Bonds in connection with a refunding or redemption. The Water/Sewer/Drainage Reserve Requirement has been established in the Bond Resolution to be, with respect to the Water/Sewer/Drainage Contract Revenue Bonds, a sum of money equal to one-half of the maximum annual debt service requirements on the Water/Sewer/Drainage Contract Revenue Bonds then outstanding. Any funds in excess of the Water/Sewer/Drainage Reserve Requirement held in the Water/Sewer/Drainage Reserve Fund may be deposited into the Water/Sewer/Drainage Debt Service Fund, as directed by the Master District’s Board of Directors.

Events of Default

The Water/Sewer/Drainage Indenture provides that an Event of Default shall be either of the following occurrences:

- (a) Failure to pay when due the principal, redemption price or interest on any Water/Sewer/Drainage Contract Revenue Bonds; or
- (b) Failure to deposit to the Water/Sewer/Drainage Debt Service Fund money sufficient to pay any principal of or interest on any Water/Sewer/Drainage Contract Revenue Bond no later than the date when it becomes due and payable.

Remedies

The Water/Sewer/Drainage Indenture provides that if an event of default by the Master District exists, then, in addition to other rights and remedies, the Trustee, subject to the provisions of the Water/Sewer/Drainage Indenture, may proceed to protect and enforce its rights and the rights of the Registered Owners by suit, action or proceeding in equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in the Water/Sewer/Drainage Indenture, the Bond Resolution or the Water/Sewer/Drainage Contract Revenue Bonds or in aid of the execution of any power granted in the Water/Sewer/Drainage Indenture or for the enforcement of any other legal, equitable or other remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or such Registered Owners, including, without limitation, the right to seek a writ of mandamus issued by a court of competent jurisdiction compelling the board of directors or other officers of the Master District or any Participant to make any Water/Sewer/Drainage Contract Payment (but only from and to the extent of the sources provided in the Water/Sewer/Drainage Indenture and the Master District Contract) or to observe and perform the covenants, obligations or conditions of the Water/Sewer/Drainage Indenture or the Master District Contract relating to the Water/Sewer/Drainage Contract Revenue Bonds. The Water/Sewer/Drainage Indenture provides that the Trustee may seek the appointment of receivers, may act without possession of the

Water/Sewer/Drainage Contract Revenue Bonds, may act as attorney in fact for the Registered Owners of the Water/Sewer/Drainage Contract Revenue Bonds, that no remedy is exclusive and that the delay or omission in the exercise of any right or remedy shall not constitute a waiver.

The Water/Sewer/Drainage Indenture does not provide for any acceleration of maturity of the Water/Sewer/Drainage Contract Revenue Bonds or provide for the foreclosure upon any property or assets of the Master District, other than applying the Water/Sewer/Drainage Pledged Revenues in the manner provided in the Indenture.

Limitation on Action by Owners

The Water/Sewer/Drainage Indenture imposes certain limitations on Registered Owners of Water/Sewer/Drainage Contract Revenue Bonds to institute suits, actions or proceedings at law or in equity for the appointment of a receiver or other remedy unless and until the Trustee shall have received the written request of the Registered Owners of not less than 25% of all Water/Sewer/Drainage Contract Revenue Bonds then outstanding and the Trustee shall have refused or neglected to institute such suit, action or proceeding for a period of 10 days after having been furnished reasonable indemnity. Notwithstanding the foregoing, Registered Owners of more than 50% of the aggregate principal amount of the Water/Sewer/Drainage Contract Revenue Bonds then outstanding shall have the right, by written instrument delivered to the Trustee, to direct to the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Water/Sewer/Drainage Indenture or for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee or any other proceedings under the Water/Sewer/Drainage Indenture; provided, however, that such direction shall not be contrary to law or the provisions of the Water/Sewer/Drainage Indenture, and the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability or would be unjustly prejudicial to the Registered Owners of the Water/Sewer/Drainage Contract Revenue Bonds not consenting.

Amendments to the Indenture of Trust

Without the consent of the Registered Owners of any of the Water/Sewer/Drainage Contract Revenue Bonds, the Master District and the Trustee may from time to time enter into one or more indentures supplemental to the Water/Sewer/Drainage Indenture, which shall form a part of the Water/Sewer/Drainage Indenture, for any one or more of the following purposes:

- (1) to cure any ambiguity, inconsistency or formal defect or omission in the Water/Sewer/Drainage Indenture, or any supplemental indenture, so long as said cure is not inconsistent with the Water/Sewer/Drainage Indenture and does not adversely affect the interest of the owners of any outstanding Water/Sewer/Drainage Contract Revenue Bonds;
- (2) to grant to or confer upon the Trustee for the benefit of the Registered Owners of the Water/Sewer/Drainage Contract Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners of the Water/Sewer/Drainage Contract Revenue Bonds or the Trustee or either of them;
- (3) to subject to the lien of the Water/Sewer/Drainage Indenture additional revenues, properties or collateral;
- (4) to modify, amend or supplement the Water/Sewer/Drainage Indenture or any supplemental indenture in such manner as to provide further assurances that interest on the Water/Sewer/Drainage Contract Revenue Bonds will, to the greatest extent legally possible, be excludable from gross income for federal income tax purposes;
- (5) to obtain or provide for bond insurance for the Water/Sewer/Drainage Contract Revenue Bonds;
- (6) to permit the assumption of the Master District's obligations hereunder by the City of Houston or other entity that may become the legal successor to the Master District;
- (7) to create additional funds and accounts or sub-accounts within funds;
- (8) to change or expand the purposes for which bonds can be issued under the Water/Sewer/Drainage Indenture, including allowing for the issuance of contract revenue bonds for parks and recreational facilities on parity with the Water/Sewer/Drainage Contract Revenue Bonds and that are equally secured by the same lien and revenues pledged in the Water/Sewer/Drainage Indenture (this subsection is referred to herein as the "Expanded Purposes Subsection");
- (9) to modify any provision of the Water/Sewer/Drainage Indenture in any respect whatsoever, provided that such action shall not adversely affect the interests of the owners of any outstanding Water/Sewer/Drainage Contract Revenue Bonds; and

- (10) to obtain or provide for one or more debt service reserve fund surety policies to satisfy some or all of the Water/Sewer/Drainage Reserve Requirement.

Except as provided in the preceding paragraph, any modification, change or amendment of the Water/Sewer/Drainage Indenture may be made only by a supplemental indenture adopted and executed by the Master District and the Trustee with the consent of the Registered Owners of not less than a majority of the aggregate principal amount of the Water/Sewer/Drainage Contract Revenue Bonds then outstanding. However, without the consent of the Registered Owner of each outstanding Water/Sewer/Drainage Contract Revenue Bond, no modification, change or amendment to this Water/Sewer/Drainage Indenture shall:

- (1) extend the time of payment of the principal thereof or interest thereon, or reduce the principal amount thereof or premium if any, thereon, or the rate of interest thereon, or make the principal thereof or premium if any, or interest thereon payable in any coin or currency other than any coin or currency of the United States of America which on the date of payment is legal tender for the payment of debts due the United States of America, or deprive such Registered Owner of the lien imposed by the Water/Sewer/Drainage Indenture on the revenues pledged in the Water/Sewer/Drainage Indenture; or
- (2) modify, change or amend the Water/Sewer/Drainage Indenture (except as provided in the Expanded Purposes Subsection of the Water/Sewer/Drainage Indenture, as discussed above under “Amendments to the Indenture of Trust”) to permit the creation of any lien on the revenues pledged in the Water/Sewer/Drainage Indenture equal or prior to the lien imposed by the Water/Sewer/Drainage Indenture.

Park Contract Revenue Bonds and Road Contract Revenue Bonds

In addition to the Master District’s rights under the Expanded Purposes Subsection of the Water/Sewer/Drainage Indenture, as discussed above under “Amendments to the Indenture of Trust”, the Water/Sewer/Drainage Indenture provides that the Master District reserves the right: (i) to issue Park Contract Revenue Bonds and Road Contract Revenue Bonds pursuant to indenture(s) of trust and to require the Participants to make payment for same as provided for in the Master District Contract, (ii) to enter into future indenture(s) of trust with any trustee in connection with Park Contract Revenue Bonds and/or Road Contract Revenue Bonds, and (iii) to create debt service and debt service reserve funds for same. Except to the extent the Master District may provide otherwise pursuant to the Expanded Purposes Subsection of the Water/Sewer/Drainage Indenture, the lien and revenues pledged by the Water/Sewer/Drainage Indenture do not include any payments to be made to the Master District by the Participants to pay for Park Contract Revenue Bonds or Road Contract Revenue Bonds (or the Regional Park Facilities or Regional Road Facilities).

In 2015, 2016 and 2018, the Master District issued Road Contract Revenue Bonds, secured by an Indenture of Trust dated January 1, 2015, by and between the Master District to The Bank of New York Mellon Trust Company, N.A., Houston, Texas, as Trustee (the “Road Indenture”).

The Road Indenture provides that the Master District reserves the right to issue (pursuant to the Water/Sewer/Drainage Indenture) Water/Sewer/Drainage Contract Revenue Bonds and Park Contract Revenue Bonds, and the Master District reserves the right to require the Participants to make payment for same as provided for in the Master District Contract. The Road Indenture created the Road Debt Service Fund and Road Reserve Fund. The lien and revenues pledged by the Road Indenture do not include any payments to be made to the Master District by the Participants: (i) pursuant to the Water/Sewer/Drainage Indenture; or (ii) to pay for any Park Contract Revenue Bonds; or (iii) to pay for any Water/Sewer/Drainage Contract Revenue Bonds (or Master District Water/Sewer/Drainage Facilities).

Removal or Resignation of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, signed by the Registered Owners of a majority in principal amount of the Water/Sewer/Drainage Contract Revenue Bonds then outstanding and delivered to the Trustee, with notice thereof given to the Master District.

The Trustee may at any time resign and be discharged from the trusts created by giving written notice to the Master District and by providing written notice to the Registered Owners of its intended resignation at least sixty (60) days in advance thereof. Such notice shall specify the date on which such resignation shall take effect and shall be sent by first class mail, postage prepaid to each Registered Owner of Water/Sewer/Drainage Contract Revenue Bonds. Resignation by the Trustee shall not take effect unless and until a successor to such Trustee shall have been appointed as hereinafter provided.

Appointment of Successor Trustee

In case the Trustee shall resign, or shall be removed or dissolved, or shall be in the course of dissolution or liquidation, or shall otherwise become incapable of acting under the Water/Sewer/Drainage Indenture, or in case the Trustee shall be taken under control of any public officer or officers or a receiver appointed by a court, a successor may be appointed by the Registered Owners of a majority in principal amount of the Water/Sewer/Drainage Contract Revenue Bonds then outstanding, by an instrument or concurrent instruments in writing, signed by such Registered Owners or their duly authorized representatives and delivered to the Trustee, with notice thereof given to the Master District; provided, however, that in any of the events above mentioned, the Master District may nevertheless appoint a temporary Trustee to fill such vacancy until a successor shall be appointed by the Registered Owners in the manner above provided, and any such temporary Trustee so appointed by the Master District shall immediately and without further act be automatically succeeded by the successor to the Trustee appointed by the Registered Owners. The Master District shall provide written notice to the Registered Owners of the appointment of any successor Trustee, whether temporary or permanent, in the manner provided for providing notice of the resignation of the Trustee as described above under "Removal or Resignation of Trustee." Any successor Trustee or temporary Trustee shall be a trust company or bank in good standing located in or incorporated under the laws of the State of Texas duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$100,000,000.

In the event that no appointment of a successor Trustee is made by the Registered Owners or by the Master District pursuant to the foregoing provisions at the time a vacancy in the office of the Trustee shall have occurred, the Registered Owner of any Water/Sewer/Drainage Contract Revenue Bond or the retiring Trustee may apply to any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice as it shall deem proper, if any, appoint a successor Trustee.

THE PARTICIPANTS

Creation, Authority and Description

All Participants (including the District in its capacity as a Participant) operate as municipal utility districts pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and are located within the Towne Lake development. To serve the property within their boundaries, they have the power to construct, acquire, operate, maintain and finance water, wastewater and drainage, park and recreational facilities and roads that are arterials, collectors, or thoroughfares. The Participants were created by orders of the TCEQ.

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

Authorized Bonds and Debt Service Tax

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

The District, in its capacity as a Participant, and each of the other Participants have voted bonds for purposes of providing internal water distribution, wastewater collection and storm drainage facilities, road, and park and recreational facilities within their respective boundaries.

See "APPENDIX A" for a description of the voter authorized bonds, principal amount of bonds issued and principal amount of bonds outstanding for each Participant.

Operations

Each Participant has or will construct the internal water distribution, wastewater collection system, and storm sewers, and may also construct internal road and park and recreational facilities, within its respective boundaries. Pursuant to the Master District Contract, each Participant obtains potable water and sewer services from the Master District. Each Participant sets its own retail rates for water and sewer service, and is required by the Master District Contract to do so at a level which will produce sufficient revenue to pay operating and maintenance charges of the Master District, to pay other costs of operating and maintaining its own utility system, and, together with tax revenues, to pay its Contract Payments. The Master District does not expect that revenues from the Participants' retail charges will ever be sufficient to pay a significant portion of Contract Payments for application to debt service on the Contract Revenue Bonds, including the Bonds.

Contract Tax

The District, in its capacity as the Master District, has the authority to issue Contract Revenue Bonds, including the Bonds. Each Participant's pro rata share of the debt service requirements on the Contract Revenue Bonds shall be determined by dividing each Participant's Gross Certified Appraised Valuation by the total of all Participants' Gross Certified Appraised Valuation, calculated annually. Calculation of Contract Payments, including the Water/Sewer/Drainage Contract Payments, is based upon the Gross Certified Appraised Value and does not make allowances for any exemptions granted by the Participants; however, allowances are made for exemptions provided under State law that do not require action by the Participants. See "TAXING PROCEDURES." The Master District Contract obligates each Participant to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of annual Contract Taxes without legal limit as to rate or amount, or from any other legally available funds. The Master District does not expect that revenues from the Participants' wastewater collection and water distribution systems will ever be sufficient to pay a significant portion of Contract Payments for application to debt service on the Contract Revenue Bonds, including the Bonds. The debt service requirement shall include principal, interest and redemption requirements on the Contract Revenue Bonds, paying agent/registrar fees, and all amounts necessary to establish and maintain funds established under a bond resolution or indenture of trust. Road Contract Payments (all of which are derived from the Road Contract Tax or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any other Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. Park Contract Payments (all of which are expected to be derived from the Park Contract Tax, Water/Sewer/Drainage Contract Tax, or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any other Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. Water/Sewer/Drainage Contract Payments (all of which are derived from the Water/Sewer/Drainage Contract Tax or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Road Contract Revenue Bonds or Park Contract Revenue Bonds (unless the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds); or (ii) fund or maintain the Road Reserve Fund or any reserve fund that may be created in connection with Park Contract Revenue Bonds (unless the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds).

Debt Service Tax

The Participants, including the District in its capacity as a Participant, have the statutory authority to issue unlimited tax bonds for the purpose of providing water distribution, wastewater collection and storm drainage facilities and road and park/recreation facilities to serve the land within their boundaries. Such bonds are secured by a continuing, annual ad valorem tax adequate to provide funds to pay the principal of and interest on such bonds. Such tax is in addition to the Contract Tax. See "TAX DATA – Contract Tax."

Maintenance Taxes

The Participants, including the District in its capacity as a Participant, have the authority to levy and collect an annual ad valorem tax for the operation and maintenance of facilities. A maintenance tax is in addition to taxes which the Participant is authorized to levy for paying principal of and interest on its unlimited tax bonds and the Contract Tax. See "Contract Tax" above.

Strategic Partnership

Each Participant is authorized to enter into a strategic partnership agreement ("SPA") with the City of Houston (the "City") to provide the terms and conditions under which (i) services would be provided and funded by the parties and (ii) the Participant would continue to exist for an extended period if the land within the Participant were to be annexed for full or limited purposes by the City.

The District, MUD 501 and MUD 503 have entered into SPAs with the City. MUD 502 has not entered into an SPA with the City. The SPAs entered into by the District, MUD 501, and MUD 503 provide for the annexation into the City of tracts of land within each such district for limited purposes for the imposition of the City's Sales and Use Tax. The City shall pay to the Towne Lake Management District an amount equal to 50% of the City's Sales and Use Tax revenues received by the City and generated within the boundaries of the tracts. During the term of the SPA, the City agrees to not annex or attempt to annex the District for full purposes unless: (i) it simultaneously annexes for full purposes the District, MUD 501 and MUD 503; (ii) all of the District's water supply and distribution, sanitary sewer, drainage, road, and park and recreation facilities have been developed; and (iii) the developer(s) developing water supply and distribution, sanitary sewer, drainage, road and park and recreation facilities have been reimbursed by the District (and by the Master District for the regional facilities that serve the District) according to TCEQ rules or

the City assumes the full obligation for such reimbursement to the developer(s). At such time as the SPA is no longer in effect, the above-described limitations on annexation will no longer apply. The SPAs entered into with the City by the District, MUD 501 and MUD 503 expire December 12, 2038.

Annexation

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

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds), with the assets and liabilities of a district 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.

Management

Each Participant is governed by a board of directors, consisting of five (5) members, which has control and management of all affairs of such Participant. Directors of each Participant are elected by the voters within that Participant to serve four-year staggered terms. All such directors reside or own property within the boundaries of the Participant on whose board they serve. The TCEQ exercises continuing supervisory jurisdiction over each Participant, and, in addition, operation of each Participant's water, wastewater and storm drainage facilities is subject to regulation by other agencies.

Financial Data

See "APPENDIX A" for financial information for each Participant.

Future Participants

The Service Area may only be enlarged upon the approval of two-thirds (2/3) of all Participants, in which case the Master District would have the right to contract with other participants for the expanded Service Area. Any contract with a party outside the existing Service Area and any enlargements in size and capacity of the Master District Facilities are subject to the terms and conditions of the Master District Contract and must not impair the right of the existing Participants to receive services from the Master District, which are established under the Master District Contract for the number of connections reserved to the Participant, except with the consent of the Participant. The Master District agrees that it will only contract with other participants, if any, on substantially the same terms and conditions as are set out in the Master District Contract. The District, in its capacity as a participant, has authorized submission of a request to the City of Houston to consent to the District's annexation of approximately 11.78 acres into its boundaries. The Participants have consented to an expansion of the Service Area to include such 11.78 acres. The Master District expects to consider approval of such expansion upon receipt of consent from the City of Houston to the annexation. The District makes no representation regarding whether the City of Houston will consent to the annexation or the timing for same, whether the annexation will occur, and correspondingly, whether the Master District Service Area will be expanded by approximately 11.78 acres.

MASTER DISTRICT CONTRACT

The District (in its capacity as a Participant), MUD 501, MUD 502, and MUD 503 have executed the Master District Contract with the Master District as Participants and obtained the approval of the Master District Contract from its voters at an election held within its boundaries.

The Master District Contract provides that all Participants shall pay a pro rata share of debt service on the Contract Revenue Bonds, including the Bonds, based upon each Participant's Gross Certified Appraised Valuation as a percentage of the Gross Certified Appraised Valuation of all the Participants, calculated annually. Each Participant is obligated to pay its pro rata share of the annual debt service payments from the proceeds of annual ad valorem Contract Taxes, including the Water/Sewer/Drainage Contract Tax, without legal limit as to rate or amount, or from any other legally available funds. The Contract Payments, including Water/Sewer/Drainage Contract Payments, shall be calculated to include the charges and expenses of paying agents, registrars and trustees utilized in connection with the Contract Revenue Bonds, including the Bonds, the principal, interest and redemption requirements of the Contract Revenue Bonds and all amounts required to establish and maintain funds established under the applicable bond resolution or indenture of trust. Each Participant's Contract Payments will be calculated annually by the Master District; however, the levy of a Contract Tax or the provisions of other funds to make its contract payments is the sole responsibility of each Participant. Road Contract Payments (all of which are derived from the Road Contract Tax or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any other Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. Park Contract Payments (all of which are expected to be derived from the Park Contract Tax, Water/Sewer/Drainage Contract Tax, or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any other Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. Water/Sewer/Drainage Contract Payments (all of which are derived from the Water/Sewer/Drainage Contract Tax or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Road Contract Revenue Bonds or Park Contract Revenue Bonds (unless the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds); or (ii) fund or maintain the Road Reserve Fund or any reserve fund that may be created in connection with Park Contract Revenue Bonds (unless the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds).

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

The Master District owns and operates the Master District Facilities, except for roadways that are accepted by Harris County, Texas ("County"), for operation and maintenance by the County. Each Participant (including the District in its capacity as provider of internal facilities to serve the acreage within the District's boundaries) will own and operate its internal facilities. The internal facilities have been or are expected to be financed with unlimited tax bonds sold by each of the Participants, including the District. It is anticipated that the Master District Facilities will be constructed in stages to meet the needs of a continually expanding population within the Service Area. In the event that the Master District fails to meet its obligations to provide Master District Water/Sewer/Drainage Facilities as required by the Service Area, each Participant has the right pursuant to the Master District Contract to design, acquire, construct, or expand the Master District Water/Sewer/Drainage Facilities needed to provide it with service, and convey such Master District Water/Sewer/Drainage Facilities to the Master District in consideration of payment by the Master District of the actual and reasonable necessary capital costs expended by it for such Master District Water/Sewer/Drainage Facilities.

Each Participant is further obligated to pay monthly charges to the Master District for water and sewer services rendered pursuant to the Master District Contract. The monthly charges to be paid by each Participant to the Master District will be used to pay its share of operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. Each Participant's share of operation and maintenance expenses and reserve requirements is based upon a "unit cost" of operation and maintenance expense and reserve requirements, calculated by the Master District and expressed in terms of "cost per equivalent single-family residential connection." Each Participant's monthly payment to the Master District for operation and maintenance expenses will be calculated by multiplying the number of equivalent single-family residential connections reserved to it on the first day of the previous month by the unit cost per equivalent single-family residential connection. The monthly cost per single family equivalent connection being charged by the Master District to each Participant is presently \$30.00. The Master District separately passes fees charged by the West Harris County Regional Water Authority through to the Participants, who are expected to then pass the fees onto their own customers.

Pursuant to the Master District Contract each Participant is obligated to establish and maintain rates, fees and charges for its water and wastewater services which, together with taxes levied and funds received from any other lawful sources, are sufficient at all times to pay operation and maintenance charges of the Master District, to pay other costs of operating and maintaining its own utility system, and to pay its obligations pursuant to the Master District Contract, including its Contract Payments. The Master District does not expect that revenues from the Participants' wastewater

collection and water distribution systems will ever be sufficient to pay a significant portion of Contract Payments for application to debt service on the Contract Revenue Bonds, including the Bonds. All sums payable by each Participant to the Master District pursuant to the Master District Contract are to be paid by such Participant without set off, counterclaim, abatement, suspension or diminution. If any Participant fails to pay its share of these costs in a timely manner, the Master District Contract provides that the Master District shall be entitled to cancel, in whole or in part, any reservation or allocation of capacity in the Master District’s facilities by such Participant in addition to the Master District’s other remedies pursuant to the Master District Contract. As a practical matter, the Participants have no alternative provider of the water and wastewater services rendered by the Master District under the Master District Contract. See “THE BONDS – Source and Security of Payment” and “–Unconditional Obligation to Pay.”

THE MASTER DISTRICT

The District, a political subdivision of the State of Texas, was created by order of the TCEQ, dated June 25, 2007, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is located within the extra-territorial jurisdiction of the City of Houston and lies wholly within Harris County, Texas. The District is accessed via State Highway 290, exiting Barker-Cypress Road, and traveling south to Tuckerton Road.

Management of the District

The District is governed by a board of five directors which has control and management supervision over all affairs of the District. None of the present members of the Board reside within the District; however, they each own parcels of land within the District, subject to a note and a deed of trust in favor of CW SCOA West LP. Directors are elected in even-numbered years for four-year staggered terms. The present members and officers of the Board are listed below:

Name	Position	Term Expires May
Joanne E. Quintero	President	2020
Jeffrey D. Ottmann	Vice President	2022
Saundra Dahlke	Secretary	2022
Gerald P. Mathers	Assistant Secretary	2020
Marilyn Roberts	Assistant Vice President	2022

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

Tax Assessor/Collector – The District’s Tax Assessor/Collector is Bob Leared Interests.

Bookkeeper – The District contracts with F. Matuska, Inc., for bookkeeping services.

Utility System Operator – The District’s operator is Environmental Development Partners, LLC.

Auditor – As required by the Texas Water Code, the District retains an independent auditor to audit the District’s financial statements annually, which annual audit is filed with the TCEQ. A copy of the District’s audit prepared by McCall Gibson Swedlund Barfoot PLLC for the fiscal year ended March 31, 2018, is included as “APPENDIX B” to this Official Statement. McCall Gibson Swedlund Barfoot PLLC has a leasehold agreement with an entity affiliated with CW SCOA West L.P. (the Developer) for the rental of commercial office space.

Engineer – The consulting engineer retained by the District in connection with the design and construction of the District’s facilities is Edminster, Hinshaw, Russ and Associates, Inc. (the “Engineer”).

Legal Counsel – The District employs Allen Boone Humphries Robinson LLP as General Counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid 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 on the sale and delivery of the Bonds.

Financial Advisor – The District has employed the firm of RBC Capital Markets, LLC as financial advisor to the District. Payment to the Financial Advisor by the District is contingent upon the issuance, sale and delivery of the Bonds. The Financial Advisor is employed by the District. The Financial Advisor is not obligated to undertake, and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement that has been supplied or provided by third-parties.

The Service Area

The Service Area contains approximately 2,112 acres, including a total of approximately 79.94 acres in the District. This approximately 2,112 acres of land is comprised of the land within the District, MUD 501, MUD 502, and MUD 503. The District in its capacity as a Participant, MUD 501, MUD 502 and MUD 503 have each entered into the Master District Contract with the Master District. Pursuant to the Master District Contract, the Master District is obligated to provide the Master District Facilities to serve the land in the District, MUD 501, MUD 502, and MUD 503. The Service Area is located in Harris County, approximately 25 miles northwest of the central business district of Houston, Texas. The Service Area lies within the Cypress-Fairbanks Independent School District.

Within the Service Area, in 2013 MUD 502 deannexed 268.59 acres, of which 5.70 acres were annexed into MUD 500 and 262.89 acres were annexed into MUD 501. In 2015, MUD 503 deannexed 436.65 acres, all of which were annexed into MUD 502. The District, in its capacity as a participant, has authorized submission of a request to the City of Houston to consent to the District's annexation of approximately 11.78 acres into its boundaries. The Participants have consented to an expansion of the Service Area to include such 11.78 acres. The Master District expects to consider approval of such expansion upon receipt of consent from the City of Houston to the annexation. The District makes no representation regarding whether the City of Houston will consent to the annexation or the timing for same, whether the annexation will occur, and correspondingly, whether the Master District Service Area will be expanded by approximately 11.78 acres.

Status of Development

The following chart more completely describes the status of residential development within the District as of May 1, 2019.

District	Total Acreage	Completed Lots	Occupied Completed Homes	Unoccupied Completed Homes	Homes Under Construction	Vacant Developed Lots	Total Active Water Accounts
Harris Co. MUD No. 500 (a)	79.94	1	1 (b)	0	0	0	44
Harris Co. MUD No. 501	929.17	1,462	1,117	2	57	70	1,211
Harris Co. MUD No. 502	882.75	1,099	467	1	154	260	653
Harris Co. MUD No. 503	<u>219.95</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>2,111.81</u>	<u>2,562</u>	<u>1,585</u>	<u>3</u>	<u>211</u>	<u>330</u>	<u>1,908</u>

(a) There is no single-family residential development in the District.

(b) Includes one multi-family apartment project consisting of 366 units.

Cypress-Fairbanks ISD David Anthony Middle School opened in MUD 501 for the 2014-2015 school year. A 20,000 square foot Amenity Center and Waterpark opened in May 2015 in MUD 501. A Learning Experience day care, dental office and plastic surgery center were also constructed within MUD 501.

Additionally in MUD 502, the remaining portion of Section 32 consisting of 15 lots was delivered to builders in August 2015. Section 38 was delivered to builders in March 2015 and consists of 40 lots. Sections 33 consisting of 94 lots and Section 36 consisting of 30 lots were delivered to builders in July 2015 and October 2015, respectively. Section 42 consisting of 113 lots was delivered to builders in January 2017. Section 43 consisting of 71 lots was delivered to builders in February 2017. Section 45 consisting of 51 lots was delivered to builders in April 2017. Section 46 consisting of 231 lots was delivered in August 2017. Section 47 consisting of 27 lots was delivered to builders in July 2018. Section 50 consisting of 40 lots was delivered to builders in June 2019. Section 51 consisting of 63 lots was delivered to builders in June 2019.

MUD 503 consists of approximately 220 acres. Currently, there is no development in MUD 503.

In the District, commercial development includes a 136,000 square foot Kroger grocery store with retail space, a 5,000 square foot HSD Learning Academy, a Bank of America, a McDonald's restaurant, a Chick-Fil-A restaurant, a Torchy's Tacos, an Avanti senior living facility, and a North Cypress Emergency Care Clinic. Twelve acres have been developed as the Lakeview Lofts Apartments (366 units, approximately 95% leased). The Boardwalk at Towne Lake Phase I, which is on approximately 10.5 acres and includes approximately 116,000 square foot of retail, restaurant and office space, opened in March 2016. There is no single-family residential development in MUD 500.

Future Development

The District, in its capacity as a Participant, has approximately 62.1 developed acres, approximately 10.2 acres undeveloped but developable and approximately 7.6 acres that are undevelopable. MUD 501 has approximately 588 developed acres, approximately 49 acres undeveloped but developable and approximately 292 acres that are undevelopable. MUD 502 has 356 developed acres, approximately 214 acres undeveloped but developable and approximately 312.3 acres that are undevelopable. MUD 503 currently has no development within its limits. Neither the District nor the Participants can make any representation that any future development will occur within the Service Area. In the event that future development does occur in the Service Area, it is anticipated that the development costs will be financed through the sale of future bond issues.

THE SYSTEM

Master Facilities

Water Facilities: The Master District is responsible for planning and providing major water facilities to the Participants within its Service Area. The potable water supply facilities constructed by or on behalf of the Master District and being operated by the Master District (“Water Supply Facilities”) currently consist of one water plant, 1,000,000 gallons of ground storage capacity, 6,475 gallons per minute (“gpm”) of booster pump capacity, pressure tank capacity of 30,000 gallons, and all related appurtenances. With proceeds of bonds previously issued by the Master District, the Master District purchased the Water Supply Facilities from the entity that was leasing the facilities to the Master District. The major components of the Master District’s Water Supply Facilities have the capacity to serve approximately 5,000 equivalent single-family connections (“ESFCs”). According to the Master District’s Engineer, the Master District has a current reserved capacity of 4,000 ESFCs for the Participants and 2,603 ESFC’s are being served by the Water Supply Facilities.

The Master District has completed the expansion to Water Plant No. 1. The Water Plant has 1,000,000 gallons of ground storage capacity and 6,475 gpm of booster pump capacity. The Water Plant has the capacity to serve approximately 5,000 ESFCs.

The Master District is scheduled to be complete with Water Plant No. 2 approximately July 2019. Once complete, Water Plant No. 2 will have 600,000 gallons of ground storage capacity and 1,950 gpm of booster pump capacity. The Water Plant No. 2, once complete, will have the capacity to serve approximately 1,000 ESFCs.

The Master District is within the boundaries of the West Harris County Regional Water Authority (the “Authority”) and receives surface water from the Authority. The Master District then delivers surface water to its Service Area. The Master District does not own or operate any groundwater wells. The Master District has two emergency water interconnects, with Harris County Municipal Utility District No. 172 and with Remington Municipal Utility District No. 1.

In order to fully provide water supply to the Service Area, additional Water Supply Facilities will need to be constructed from time to time to meet the water demands of the Service Area. By reserving capacity to the Participants, the Master District assumes the responsibility to expand facilities as needed to provide service for reserved connections as they become active.

In addition, the Master District owns and operates a non-potable water system that includes detention ponds used to supply non-potable water for irrigation.

Wastewater Treatment: The Master District is responsible for planning and providing major wastewater collection and treatment facilities to the participants within its Service Area. The wastewater treatment facilities constructed by or on behalf of the Master District and being operated by the Master District (the “Wastewater Treatment Facilities”) currently consist of a plant (“Wastewater Plant”) with a total capacity of 750,000 gallons per day (“GPD”). Current wastewater treatment capacity at the Wastewater Treatment Plant will serve 4,076 ESFCs. According to the Master District’s Engineer, the Master District has reserved capacity for 3,031 ESFCs for the Participants and approximately 2,603 ESFCs are being served by the Wastewater Treatment Facilities.

The Master District owns the first phase (160,000 GPD) and the second phase (160,000 GPD) of the Wastewater Treatment Facilities. The Master District leased the third phase (430,000 GPD, for a total of 750,000 GPD) of the Wastewater Treatment Facilities pursuant to a 60-month lease agreement. The third phase of the plant was completed and is operational. The Master District has assumed certain rights and obligations under the lease. The Master District is obligated to pay the lease payment for the Wastewater Treatment Facilities, which currently is \$25,741.56 per month. Upon payment of the final lease payment, the Master District will own the third phase of the Wastewater Treatment Facilities.

In order to fully provide wastewater treatment for the Service Area, the Wastewater Treatment Facilities will need to be expanded from time to time to meet the wastewater treatment demands of the Service Area. By reserving capacity to the Participants, the Master District assumes the responsibility to expand facilities as needed to provide service for reserved connections as they become active.

Major Water Distribution and Wastewater Collection: Major water distribution facilities consist of waterlines ranging in size from 8-inch to 16-inch. These potable water distribution facilities supply water from the Master Water Supply Facilities to the internal facilities constructed by or on behalf of each Participant. The major wastewater collection facilities include sanitary sewer lines ranging in size from 8-inch to 27-inch. These collection lines collect waste from the internal facilities constructed by or on behalf of each Participant and transport it to the Wastewater Treatment Facilities.

Master Drainage: The Master District also provides the Service Area with drainage facilities, which include drainage channel facilities, detention pond facilities, and conveyance storm sewer lines (“Storm-Water Drainage Facilities”). The Master District is responsible for operation and maintenance of the Storm-Water Drainage Facilities.

The Service Area drains to Horsepen Creek and Cypress Creek. The Harris County Flood Control District (“HCFCD”) is responsible for maintenance of Horsepen Creek and Cypress Creek.

Conveyance of sheet flow runoff to the storm sewer is supplemented by a system of curb, gutter, and street inlets. The Master District has entered into a Regional Water Treatment and Drainage and Detention Agreement with Harris County Municipal Utility District No. 172 (“MUD 172”) for joint development and maintenance of drainage and detention facilities, whereby the Master District operates certain detention facilities and MUD 172 is responsible for its share of costs attributable to these facilities.

Internal Water Distribution, Wastewater Collection, and Storm Drainage Facilities: Internal water distribution, wastewater collection and storm drainage facilities have been constructed, are being constructed, or will be constructed by the Participants. The Participants’ systems tie into the Master District’s systems.

100-Year Flood Plain

According to the Engineer, no improvements or development in the Service Area currently lie within the FEMA 100-year flood plain according to Federal Emergency management Agency Flood Insurance Rate map Nos. 48201CO405M and 48201CO415M. The boundaries of the District (in its capacity as a Participant) do not include any area within the 100-year flood plain. HCMUD 501 contains approximately 140 Acres within the 100-year flood plain. HCMUD 502 contains approximately 63 Acres within the 100-year flood plain and HCMUD 503 contains approximately 67 Acres within the 100-year flood plain. If areas within the 100-year flood plain are developed, they would be built according to the requirements of local government agencies, including the Harris County Public Infrastructure Department, the Harris County Flood Control District, and the City of Houston Engineering Department, as required. See “RISK FACTORS – 100-Year Flood Plain.”

Subsidence and Surface Water Supply

The Master District is within the boundaries of the Harris Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District’s jurisdiction, including the land within the Service Area. In 2001, the Texas legislature created the West Harris County Regional Water Authority (“Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The Master District’s Service Area is located within the boundaries of the Authority. The Authority has entered into a Water Supply Contract with the City of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The Master District receives surface water from the Authority. If the Master District were to construct any groundwater well(s), such wells would be included within the Authority’s GRP and subject to the groundwater pumpage fees described below.

The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees, user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users to convert from groundwater to surface water. The Authority currently charges the Master District, and other surface water users, a fee per 1,000 gallons based on the amount of surface water received by the Master District from the Authority. The Authority charges groundwater users a fee per 1,000 gallons based on the amount of groundwater pumped. The Authority has issued revenue bonds to fund, among

other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds through the year 2035 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$9.00 per 1,000 gallons effective January 1, 2019 ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the Master District. If the Master District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the Master District.

The Master District cannot predict the amount or level of fees and charges, which may be due to the Authority in the future. The Master District passes such fees through to the Participants (such fees are separate from monthly payments to the Master District for operation and maintenance expenses), who are expected to then pass the fees on to their own customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

Regulation

According to the Master District's Engineer, the Water Supply Facilities, the non-potable water supply facilities, the Wastewater Treatment Facilities, and the Storm-Water Drainage Facilities constructed by the Master District (the "System") have been designed in accordance with accepted engineering practices and applicable requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City of Houston and Harris County. According to the Master District's Engineer, the design of the System has been approved by all required governmental agencies and the TCEQ, as applicable.

Operation of the System is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

THE ROAD SYSTEM

The Master District, in its capacity as the provider of facilities for regional arterial, collector and thoroughfare roads and improvements in aid thereof ("Master District Road Facilities") necessary to serve the Service Area, has constructed or will construct the Master District Road Facilities. The major arterial, collector and thoroughfare roads necessary to serve the Service Area include, but are not limited to, Tuckerton Road, Towne Lake Parkway, Greenhouse Road, Cypress North Houston Road and Hamilton Hills Drive. The major thoroughfare and collectors consist of stabilized curb and gutter 8-inch concrete pavement and includes bridges. In addition, the Master District Road Facilities are planned to include a Greenhouse Road grade separation at Union Pacific Railroad tracks and related US 290 intersection improvements.

All roadways are designed and constructed in accordance with Harris County (the "County") and City of Houston standards, rules and regulations. To date, the County has accepted the completed Master District Road Facilities for operation and maintenance and is responsible for operation and maintenance thereof. In the event the County were to fail to accept the Master District Road Facilities, the Master District is expected to include the cost of maintenance of same in the Master District's operation and maintenance expenses to be shared by the Participants in accordance with the Master District Contract, and such cost could be significant.

These roads lie within the public right-of-way. In addition to the roadway, public utilities such as underground water, sewer, and drainage facilities are located within the right-of-way. The right-of-way is also shared by street lights, sidewalks and franchise utilities (power, gas, telephone and cable).

In addition to the Master District Road Facilities, internal roadways have been or are being constructed by the Participants.

DISTRICT DEBT

General

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

Assessed Valuation of the Participants

HC MUD No.	2018	Master District Percentage	Estimated	Master District Percentage
	Certified Taxable Value (a)		Taxable Value at 01/01/2019 (b)	
500	\$142,102,882	16.20%	\$143,600,289	14.19%
501	532,106,637	60.65%	566,555,238	55.97%
502	194,020,621	22.11%	293,001,574	28.94%
503	9,138,592	1.04%	9,138,404	0.90%
Total	\$877,368,732	100.00%	\$1,012,295,505	100.00%

(a) The 2018 Certified Taxable Assessed Value includes the current certified portion as provided by HCAD as of supplement 8. See "TAXING PROCEDURES." The Certified Taxable Assessed Value is distinct and different from the Certified Appraised Value as defined by the Master District Contract.

(b) Provided by HCAD for information purposes only, this amount is an estimate of the value of all taxable property located within the District, MUD 501, MUD 502 and MUD 503 as of January 1, 2019, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2018, through January 1, 2019. Moreover, this estimate is prior to any protests and the ultimate Assessed Valuation of any improvements added from January 1, 2018, through December 31, 2018, which will be placed on each Participant's 2019 tax roll, may vary significantly from such estimate once the HCAD Review Board certifies the value thereof in 2019. See "TAXING PROCEDURES."

Tax Rate Distribution

District	2018	2018	2018	Total
	Debt Service Tax	Maintenance Tax	Contract Tax	2018 Direct Tax Rate
Harris Co. MUD No. 500	\$0.160	\$0.130	\$0.910	\$1.200
Harris Co. MUD No. 501	0.250	0.015	0.920	1.185
Harris Co. MUD No. 502	0.360	0.190	0.950	1.500
Harris Co. MUD No. 503	0.000	0.550	0.950	1.500

Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the Participants and the estimated percentages and amounts of such indebtedness attributable to property within the Participants. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports prepared by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes.

Taxing Jurisdiction	As of 04/30/2019 Gross Debt	Overlapping Percent	Overlapping Amount
Cypress-Fairbanks ISD	\$2,586,595,000	1.05%	\$27,159,248
Harris County	2,050,758,022	0.12%	2,460,910
Harris County Department of Education	6,320,000	0.12%	7,584
Harris County Flood Control District	83,075,000	0.12%	99,690
Harris Co. Hospital District	57,300,000	0.12%	68,760
Lone Star College System	609,845,000	0.36%	2,195,442
Port of Houston Authority	593,754,397	0.12%	712,505
Harris County Municipal Utility District No. 500 ^(a)	2,000,000	100.00%	2,000,000
Harris County Municipal Utility District No. 501	24,275,000	100.00%	24,275,000
Harris County Municipal Utility District No. 502	12,290,000	100.00%	12,290,000
Harris County Municipal Utility District No. 503	-	100.00%	0
Overlapping			\$71,269,138
District Total Direct Debt ^(b)			<u>121,180,000</u>
Direct & Overlapping			<u><u>\$192,449,138</u></u>

(a) In its capacity as a Participant.

(b) Includes the Bonds.

Debt Ratios

	2018 Certified Taxable Assessed Valuation of the Participants	2019 Estimated Taxable Assessed Valuation of the Participants ^(a)
Direct Debt	13.81%	11.97%
Total Direct and Estimated Overlapping Debt	21.93%	19.01%

(a) Estimated value as of January 1, 2019 for the District, MUD 501, MUD 502 and MUD 503.

Debt Service Funds

Direct Debt:	
Outstanding Bonds (a)	\$108,565,000
The Bonds	<u>12,615,000</u>
Total	\$121,180,000
Estimated Overlapping Debt (b)	<u>\$71,269,138</u>
Total Direct and Estimated Overlapping Debt	<u>\$170,790,129</u>

Master District Water/Sewer/Drainage Debt Service Funds Available as of June 5, 2019

Water/Sewer/Drainage Reserve Fund (a) (b) (c)	\$2,514,534.14
Water/Sewer/Drainage Debt Service Fund (b) (c)	<u>\$3,820,647.04</u>
Total (b) (c).....	\$6,335,181.18

Master District Road Debt Service Funds Available as of June 5, 2019

Road Reserve Fund (b) (c)	\$1,024,318.53
Road Debt Service Fund (b) (c)	<u>\$1,460,190.77</u>
Total (b) (c).....	\$2,484,509.30

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- (a) As of June 5, 2019.
 - (b) See “Estimated Overlapping Debt” above.
 - (c) An estimated additional \$251,150 will be deposited into Water/Sewer/Drainage Reserve Fund from proceeds of the Bonds. Preliminary; subject to change.
 - (d) All of the Master District's Contract Revenue Bond debt is payable from Contract Taxes as follows: (i) the Road Contract Tax with respect to Road Contract Revenue Bonds, and (ii) the Water/Sewer/Drainage Contract Tax with respect to the Water/Sewer/Drainage Contract Revenue Bonds. The revenues from the Water/Sewer/Drainage Contract Tax will be allocated to the Water/Sewer/Drainage Contract Revenue Bonds, including the Bonds (and potentially also to the Park Contract Revenue Bonds if the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds), and the revenues from the Road Contract Tax will be allocated to Road Contract Revenue Bonds. The Road Debt Service Fund and Road Reserve Fund are not pledged to the Water/Sewer/Drainage Contract Revenue Bonds and the Water/Sewer/Drainage Debt Service Fund and Water/Sewer/Drainage Reserve Fund are not pledged to the Road Contract Revenue Bonds. See “SOURCE AND USES OF FUNDS” and “SELECTED FINANCIAL INFORMATION – Preliminary Debt Service Requirements.”
 - (e) Each Participant is obligated to pay a pro rata share of debt service on the Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds by the dates specified by the Master District. See “THE BONDS - Water/Sewer/Drainage Contract Payments by the Participants”, “-Unconditional Obligation to Pay” and “MASTER DISTRICT CONTRACT.” The Master District has specified March 1 and September 1 as the dates by which the Participants are required to pay contract payments that are due for Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds. The Water/Sewer/Drainage Indenture provides that the Water/Sewer/Drainage Contract Payments will be paid directly to the Trustee semiannually on or before June 1 and December 1 of each year, and the Road Indenture provides that the Road Contract Payments will be paid directly to the Trustee semiannually on or before June 1 and December 1 of each year.

TAXING PROCEDURES

Authority to Levy Taxes

Each Participant is authorized to levy a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within its boundaries in sufficient amount to pay the principal and interest on any unlimited tax bonds issued by it, Water/Sewer/Drainage Contract Payments on the Bonds, and Contract Payments on any other Contract Revenue Bonds that the Master District has issued or may hereafter issue, and to pay the expenses of assessing and collecting such taxes. Voters within each Participant have also authorized the levy of a maintenance tax not to exceed \$1.50 per \$100 valuation for the operation and maintenance of water, wastewater, drainage and park/recreation facilities and a maintenance tax not to exceed \$0.25 per \$100 valuation for the operation and maintenance of road facilities.

Property Tax Code and County-Wide Appraisal District

Title 1 of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the Participants. Provisions of the Property Tax Code are complex and are not fully summarized here.

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

Property Subject to Taxation by the Participants

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in a Participant are subject to taxation by that Participant. 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, a Participant may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of that Participant. A Participant may be required to offer such exemptions if a majority of voters approve same at an election. A Participant 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. A Participant is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair that Participant's obligation to pay tax supported debt incurred prior to adoption of the exemption by that Participant. Furthermore, a Participant 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 disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

Harris County may designate all or part of the area within the Participants as a reinvestment zone. Thereafter, overlapping taxing entities, including the Participants, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the Participants, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdiction. None of the area within the Participants has been designated as a reinvestment zone to date, and the Participants have not approved any such tax abatement agreements.

Valuation of Property for Taxation

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

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

designation and later loses it by changing the use of the property or selling it to an unqualified owner, the Participants can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

Participant and Taxpayer Remedies

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

Levy and Collection of Taxes

Each Participant 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 of each Participant, after the legally required notice has been given to owners of property within such Participant, based upon: a) the valuation of property within the Participant as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, debt service on any Participant's unlimited tax bonds, the Participant's pro rata share of the debt service requirements (including reserve fund requirements) on Contract Revenue Bonds, including the Bonds, issued by the Master District, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of 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 Participant and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the Participant and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of 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 Participants, which may be rejected by taxing units. The Participant's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continues to accrue during the period of deferral.

Delinquent Tax Payments for Disaster Areas

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

Rollback of Operation and Maintenance Tax Rate

Under current law, 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.

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

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

Special Taxing Units

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

Developed Districts

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

Developing Districts

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

The District

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

Participant's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the Participant 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 Participant must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing

units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two (2) years for residential and agricultural property and six (6) months for commercial property and all other types of property after the purchasers deed at the foreclosure sale is filed in the county records.

TAX DATA

Contract Tax

The District, in its capacity as the Master District, has the authority to issue Contract Revenue Bonds. Each Participant's pro rata share of the debt service requirements on the Contract Revenue Bonds shall be determined by dividing each Participant's Gross Certified Appraised Valuation by the total of the all Participants' Gross Certified Appraised Valuation, calculated annually. Calculation of Contract Payment, which includes the Water/Sewer/Drainage Contract Payment, is based upon "gross" certified appraised value and does not make allowances for any exemptions granted by the Participants; however, allowances are made for exemptions provided under State law that do not require action by the Participants. See "TAXING PROCEDURES." The Master District Contract obligates each Participant to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of annual unlimited Contract Taxes, including the Water/Sewer/Drainage Contract Tax, or from any other legally available funds. The debt service requirement shall include principal, interest and redemption requirements on the Contract Revenue Bonds, paying agent/registrar fees, and all amounts necessary to establish and maintain funds established under the applicable bond resolution or indenture of trust. Road Contract Payments (all of which are derived from the Road Contract Tax or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any other Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. Park Contract Payments (all of which are expected to be derived from the Park Contract Tax, Water/Sewer/Drainage Contract Tax, or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any other Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. Water/Sewer/Drainage Contract Payments (all of which are derived from the Water/Sewer/Drainage Contract Tax or other legally available funds of a Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Road Contract Revenue Bonds or Park Contract Revenue Bonds (unless the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds); or (ii) fund or maintain the Road Reserve Fund or any reserve fund that may be created in connection with Park Contract Revenue Bonds (unless the Master District amends the Water/Sewer/Drainage Indenture to include Park Contract Revenue Bonds).

Debt Service Tax

Each Participant has the statutory authority to issue its unlimited tax bonds for the purpose of providing facilities to serve the land within its boundaries. Such bonds will be served by a continuing, annual ad valorem tax, without legal limit as to rate or amount, adequate to provide funds to pay the principal of and interest on such bonds. Such tax is in addition to Contract Taxes, including the Water/Sewer/Drainage Contract Tax. See "APPENDIX A" for information

related to each Participant's historical tax data and authorized but unissued unlimited tax bonds. For the 2018 tax year, the District levied a debt service tax of \$0.16 per \$100 of assessed value to pay for the debt service for calendar year 2019 on the \$2,000,000 Unlimited Tax Bonds issued in its capacity as a Participant.

Maintenance Tax

The Board of Directors of each Participant has the statutory authority to levy and collect an annual ad valorem tax for maintenance purposes, including, but not limited to, funds for planning, constructing, maintaining, repairing and operating all necessary land, plants, works, facilities, improvements, appliances and equipment, if such maintenance tax is authorized by a vote of the Participant's electors. Such tax would be in addition to the Contract Taxes, including the Water/Sewer/Drainage Contract Tax, and taxes levied for paying principal of and interest on any unlimited tax bonds which have been or may be issued in the future by the Participants. See "Appendix A" for the amount of voter authorized maintenance taxes for each Participant.

Tax Rate Limitation

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

Analysis of Tax Base (a)

The following table illustrates the Participants' total taxable assessed value in the 2018 tax year as of January 1, 2018, by type of property.

	MUD 500 2018 A.V.	MUD 501 2018 A.V.	MUD 502 2018 A.V.	MUD 503 2018 A.V.
Land	\$31,695,806	\$148,715,384	\$90,617,976	\$9,283,482
Improvement	100,852,916	472,740,939	107,991,981	0
Personal Property	12,098,382	2,279,324	840,785	690
Total Appraised Value	\$144,647,104	\$623,735,647	\$199,450,742	\$9,284,172
Less Exemptions	(2,544,222)	(91,629,010)	(5,430,121)	(145,580)
Total Taxable Value	\$142,102,882	\$532,106,637	\$194,020,621	\$9,138,592

(a) As provided by the Harris County Appraisal District ("HCAD") as of certification dated May 22, 2019, the breakout shown above does not include any portion of the uncertified appraisal roll or additional pending value.

Principal Taxpayers (a)

The following represents the principal taxpayers within the Participants, type of property, and their assessed values as a percentage of the 2018 Certified Taxable Valuation as of January 1, 2018:

Taxpayer	Type of Property	Assessed Valuation 2018 Tax Roll	% of 2018 Tax Roll
Arium Towne Lake Owner	Land & Improvements	42,558,583	4.85%
CC Boardwalk I LP	Land & Improvements	25,454,266	2.90%
CW SCOA West LP	Land	24,079,392	2.74%
Kroger Texas LP	Land, Improvements, Pers. Property	23,373,078	2.66%
IP Avanti Towne Lake LLC	Land & Improvements	11,653,466	1.33%
North Cypress Medical Center	Land & Improvements	10,999,822	1.25%
LH Towne Lake LLC	Land & Improvements	3,405,602	0.39%
Ashton Houston Residential	Land, Improvements, Pers. Property	3,333,619	0.38%
CC Tuckerton Retail	Land, Improvements, Pers. Property	2,809,390	0.32%
Towne Lake Community Assoc.	Land & Improvements	<u>2,767,246</u>	<u>0.32%</u>
TOTAL		\$150,434,464	17.15%

(a) For certified values only based on information provided by HCAD. Excludes uncertified value.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Taxable Assessed Valuation that would be required to meet certain debt service requirements on the Bonds (interest estimated at 5.00%) and the Outstanding Bonds if no growth in the Participants occurs beyond the 2018 Certified Taxable Assessed Valuation (\$877,368,732), or the Estimated Taxable Assessed Valuation as of January 1, 2019 (\$1,012,295,505). The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirement (2019-2044)	\$7,109,313
Maximum Annual Debt Service Requirement (2042) (“MADS”)	\$7,526,500
Tax Rates Required to Pay the Average Annual Debt Service on	
the Bonds and Outstanding Bonds (2019-2044) (a)	
Based upon 2018 Certified Taxable Assessed Valuation.....	\$0.86
Based upon Estimated Taxable Assessed Valuation as of January 1, 2019	\$0.74
Tax Rates Required to Pay the Maximum Annual Debt Service on	
the Bonds and Outstanding Bonds (2042) (b)	
Based upon 2018 Certified Taxable Assessed Valuation.....	\$0.91
Based upon Estimated Taxable Assessed Valuation as of January 1, 2019	\$0.79

(a) The tax rates of \$0.86 and \$0.74 based on the 2018 Certified Taxable Value and Estimated Taxable Assessed Value produce \$7,168,102 and \$7,116,437, respectively, based on 95% collections.

(b) The tax rates of \$0.91 and \$0.79 based on the 2018 Certified Taxable Value and Estimated Taxable Assessed Value produce \$7,584,852 and \$7,597,277, respectively, based on 95% collections.

Estimated Overlapping Taxes

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

Set forth below is a compilation of all 2018 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

<u>Taxing Jurisdiction</u>	<u>2018 Tax Rate Per \$100 of A.V.</u>
The Participants (a)	\$1.50000
Cypress-Fairbanks ISD	1.44000
Harris County (b)	0.63530
Lone Star College System	0.10780
Harris County Emergency Service District No. 9	0.05270
Estimated Total Tax Rate	\$3.73580

(a) Represents the highest total tax rate for any of the Participants.

(b) Includes Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education and Port of Houston Authority.

THE DEVELOPER

The Role of a Developer

In general, activities of a developer in utility districts, such as the Participants, include defining a marketing program and building schedule, securing necessary governmental approvals and permits, arranging for construction of roads and the installation of certain 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 or users. The Developer is under no obligation to the Participants to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on the Developer's right to sell any or all of the land which the Developer owns within a Participant. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay its obligations.

The Developer

CW SCOA West L.P. ("CW SCOA West" or the "Developer") is a Texas limited partnership whose general partner is CW SCOA West, GP, L.L.C. The general partner is controlled by Caldwell Companies, a developer of residential communities in Northwest Houston. The largest limited partnership interest (90%) is held by an American investment subsidiary of the Sumitomo Corporation of Japan. Caldwell Companies has completed over 3,500 lots in several Northwest Houston communities including Bridlecreek, Rock Creek, Spring Creek Ranch, Wimbledon Falls and Wincrest Falls (including Towne Lake). Caldwell Companies also develops commercial/retail projects. Its latest projects are Towne Lake Boardwalk with 124,000 square feet and Cypress Crossing with approximately 30,000 square feet, both located in Harris County.

Development Financing

Development of the 2,400-acre Towne Lake project (a portion of which is located outside the approximate 2,112-acre Service Area) is provided through equity contributions of the partners totaling approximately \$39.4 million and a \$25 million revolving line of credit provided by Texas Capital Bank, acting as sole lender. Approximately \$11 million dollars are available to draw on the line of credit. All of the proceeds of the Bonds that are payable to the Developer are pledged in their entirety to the bank lenders. According to the Developer it is in compliance with all material terms of its loan agreement. The revolving line of credit matures on June 8, 2021.

Lot Sales Contracts

The Developer has completed 26 sections and is selling lots in twelve separate sections within MUD 501 and MUD 502. Within the 26 sections, 1,255 lots have been constructed, of which 999 have been sold. The remaining 256 lots are scheduled to be sold to certain home builders pursuant to the quarterly lot takedown schedules of executed Lot Sales Contracts. The following lists the developed sections within the Participants and the corresponding builders under contract therein:

- Section 7 – Frontier Custom Homes
- Section 10 – Custom Homes
- Section 15 – Newmark Homes
- Section 17 – Highland Homes, Princeton Homes
- Section 19 – Caldwell Homes
- Section 26 – Custom Homes
- Section 27 – David Weekley Homes, Coventry Homes, Newmark Homes, Toll Brothers
- Section 30 – Coventry Homes, Newmark Homes
- Section 32 – Drees Custom Homes, Ravenna Homes, Caldwell Homes
- Section 34 – David Weekley Homes, Newmark Homes, Scott Thomas
- Section 35 – Drees Custom Homes, Ravenna Homes, Scott Thomas, Coventry Homes, Newmark Homes
- Section 37 – Custom Homes
- Section 39 – Custom Homes
- Section 41 – Coventry Homes, David Weekley Homes, Newmark Homes
- Section 42 – Caldwell Homes, Sitterle, David Weekley Homes, Partners in Building
- Section 43 – Coventry Homes, Newmark Homes
- Section 44 – Ashton Woods Homes
- Section 45 – Caldwell Homes
- Section 46 – Village Homes, Plantation Homes (MHI), David Weekley Homes, Newmark Homes, Drees Custom Homes, Ravenna Homes
- Section 47 – David Weekley Homes, Partners in Building
- Section 50 – David Weekley Homes, Newmark Homes
- Section 51 – David Weekley Homes, Ravenna Homes, Drees Custom Homes

Lots within the following sections are sold out: Section 5, 8, 9, 13, 14, 16, 18, 19, 20, 22, 23, 24, 25, 27, 28, 29, 31, 33, 36, 38, 40 and 43.

In the event such builders fail to purchase lots in accordance with terms of the Lot Sales Contracts, the Developer's sole remedy is termination of the applicable contract and retention of earnest money.

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the District under the Constitution and laws of the State of Texas, payable from the Water/Sewer/Drainage Pledged Revenues and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Allen Boone Humphries Robinson LLP, Bond Counsel to a like effect.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS," "THE INDENTURE OF TRUST," "THE PARTICIPANTS," "MASTER DISTRICT CONTRACT," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except for " - Compliance with Prior Undertakings.") solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District or the Developer for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

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

No-Litigation Certificate

The District will furnish the Initial Purchaser a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to its knowledge threatened, either in state or federal courts, contesting or attacking the Bonds, the Master District Contract, restraining or enjoining the levy, collection and pledge of the funds from which the Bonds are payable; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds or the title of the present officers of the District.

No Material Adverse Change

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

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

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

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

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

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

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

Tax Accounting Treatment of Original Issue Bonds

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

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

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

Not Qualified Tax-Exempt Obligations

The Bonds are not "qualified tax-exempt obligations" within the meaning of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has 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 ("MSRB") through the Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB through its EMMA system. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "DISTRICT DEBT," "TAX DATA," "APPENDIX A" (Certain Financial Information Regarding the Participants) and "APPENDIX B" (Financial Statements of Participants). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2020. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 ("Rule") of the United States Securities and Exchange Commission ("SEC"). The updated information will include audited financial statements if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with

the accounting principles described in the Bond Resolution, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Specified Event Notices

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the obligated person if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties. The term "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from MSRB

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

Limitations and Amendments

The District has agreed to update information and to provide notices of 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 initial purchaser to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Initial Purchaser 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 its previous continuing disclosure undertakings made in accordance with SEC Rule 15c2-12.

PREPARATION OF OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the Master District's records, the Master District Engineer, the Developer, the Tax Assessor/Collector, the Harris County Appraisal District and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. The summaries of the statutes, orders 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.

Consultants

The information contained in this Official Statement relating to engineering and to the description of the System generally and, in particular, the engineering information included in the sections captioned "THE MASTER DISTRICT – Status of Development," "THE SYSTEM" and "THE ROAD SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to development and the status of development within the Participants generally and, in particular, the information in the sections captioned "THE MASTER DISTRICT – Status of Development" and "THE DEVELOPER" has been provided by the Developer and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

The information contained in this Official Statement relating to the Participants' financial statements, in particular, the information in "APPENDIX B", has been provided by the Auditor and has been included herein in reliance upon the authority and knowledge of such party concerning the matters described therein. The Auditor has a leasehold agreement with an entity affiliated with CW SCOA West L.P. (the Developer) for the rental of commercial office space.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations, analysis of the tax base and percentages of tax collections contained in the section captioned "TAX DATA" has been provided by the Harris County Appraisal District and the District's Tax Assessor/Collector, and has been included herein in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

Updating of Official Statement

If, subsequent to the date of the Official Statement, the Master 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 Master 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 Master District to so amend or supplement the Official Statement will terminate when the Master District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser notifies the Master District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the Master District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the Master District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

Certification as to Official Statement

The Master District, acting by and through its Board of Directors in its official capacity in reliance upon the consultants listed above, hereby certifies, as of the date hereof, that to the best of its knowledge, the information, statements and descriptions pertaining to the Master 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 Master District, including particularly other governmental entities, have been obtained from sources believed to

be reliable, but the Master District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

Concluding Statement

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 500 as of the date shown on the first page hereof.

/s/ _____
President, Board of Directors
Harris County Municipal Utility District No. 500

ATTEST:

/s/ _____
Secretary, Board of Directors
Harris County Municipal Utility District No. 500

AERIAL PHOTOGRAPH
(February 2019)



PHOTOGRAPHS



Boardwalk (MUD 500)



Torchy's Tacos (MUD 500)



Kroger (MUD 500)



**Eye Care, Orthodontics, Dental Specialists
(MUD 501)**



Bank of America (MUD 500)



BASU Aesthetics & Plastic Surgery (MUD 501)



ARIUM Towne Lake apartments (MUD 500)



The Learning Experience (MUD 501)



Single-Family Home Under Construction (MUD 501)



Silverline Montessori (MUD 502)



Single-Family Home Under Construction (MUD 501)



Single-Family Home Under Construction (MUD 502)



Single-Family Home (MUD 501)



Single-Family Home (MUD 502)



Single-Family Home (MUD 501)



Single-Family Home (MUD 502)

APPENDIX A
CERTAIN FINANCIAL INFORMATION REGARDING THE PARTICIPANTS

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
(In its Capacity as a Participant)

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds.....	\$31,250,000
Voter Authorized Unlimited Tax Road Bonds	\$14,230,000
Voter Authorized Unlimited Tax Park Bonds.....	\$20,000,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date	\$ 2,000,000
Debt Service Tax Limitation.....	Unlimited
Maintenance Tax Limitation.....	\$ 1.50
Maintenance Tax for Road Facilities Limitation	\$ 0.25
Contract Tax Limitation.....	Unlimited
Gross Outstanding Direct Debt.....	\$ 1,960,000
2018 Total Market Value (100% of Market Value) (a)	\$144,647,104
2018 Certified Taxable Assessed Valuation (b).....	\$142,102,882
Estimated Taxable Assessed Valuation at January 1, 2019 (c).....	\$143,600,289

Valuation as a Percentage of all Participants:

2018 Total Market Value (100% of Market Value)	14.80%
2018 Certified Taxable Assessed Valuation	16.20%
Estimated Taxable Assessed Valuation at January 1, 2019	14.19%

Average Annual Debt Service on the Bonds and Outstanding Bonds (2019-2044)	\$7,109,313
Pro Rata Share of the Contract Revenue Bonds:	
2018 Certified Taxable Assessed Valuation.....	\$1,151,459
Estimated Taxable Assessed Valuation at January 1, 2019	\$1,008,499

Maximum Annual Debt Service on the Bonds and Outstanding Bonds (2039)	\$7,526,500
Pro Rata Share of the Contract Revenue Bonds:	
2018 Certified Taxable Assessed Valuation	\$1,219,028
Estimated Taxable Assessed Valuation at January 1, 2019	\$1,067,680

Tax Rate Required to Pay Pro Rata Share of Maximum Annual Debt Service
on the Bonds and the Outstanding Contract Revenue Bonds (d):

2018 Certified Taxable Assessed Valuation	\$0.91
Estimated Taxable Assessed Valuation at January 1, 2019	\$0.79

Status of Development as of May 1, 2019:

Acreage	79.94
Total Active Equivalent Single-Family Connections (includes residential and non-residential) (e)	631
Total Developed Lots.....	N/A

- (a) The 2018 Total Market Value as provided by the Harris County Appraisal District ("HCAD") shown here includes HCAD's appraisal of total market value of the Participant as of certification dated May 22, 2019. The Market Value does not exclude exempt property or other exemptions. The Market Value is included for information only, and may not be used to assess ad valorem taxes in the Participant. The Market Value as calculated by HCAD may not reflect what property could sell for in the Participant.
- (b) The 2018 Certified Taxable Assessed Value includes the current certified portion of the owners' as provided by HCAD as of certification dated April 30, 2019. See "TAXING PROCEDURES."
- (c) Provided by HCAD for information purposes only. Represents new construction within the District from January 1, 2018 to January 1, 2019. Moreover, the estimate is prior to any protests and the ultimate Assessed Valuation of any improvements added from January 1, 2018 through December 31, 2018, which will be placed on the District's 2019 tax roll, may vary significantly from such estimate once the HCAD Review Board certifies the value thereof in 2019.
- (d) Calculated at 95% collections.
- (e) Includes one multi-family apartment project consisting of 366 units and the quarterly average for commercial consumption equivalent to 112 equivalent single family connections.

Principal Taxpayers

The following table lists the principal taxpayers and such properties' assessed value. This information is based upon the 2018 Certified Taxable Assessed Valuation.

<u>Taxpayer</u>	<u>2018 Certified Taxable Assessed Value (a)</u>	<u>% of 2018</u>
		<u>Certified Taxable Assessed Valuation</u>
Arium Towne Lake Owner LLC	\$42,558,583	29.95%
CC Boardwalk I LP	24,813,719	17.46%
Kroger Texas LP	18,729,788	13.18%
Ip Avanti Towne Lake LLC	11,697,821	8.23%
Hta North Cypress Towne Lake LLC	6,324,900	4.45%
The Boardwalk At Towne Lake	5,971,950	4.20%
KPH Consolidation, Inc.	4,674,922	3.29%
Kroger Texas LP 115	4,643,290	3.27%
LH Towne Lake LLC	3,405,602	2.40%
CC Tuckerton Retail LP	2,809,390	1.98%
Total	\$125,629,965	88.41%

(a) Includes certified values only as provided by HCAD as of certification dated June 13, 2019. Excludes uncertified value.

Tax Collections

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate/ \$100</u>	<u>Adjusted Levy</u>	<u>Current Year</u>	<u>Tax Year Ending 9/30</u>	<u>% Collections as of 5/31/19</u>
2009	\$221,546	\$1.500	\$3,323	100.00%	2010	100.00%
2010	29,255,101	1.500	438,827	100.00%	2011	100.00%
2011	28,148,157	1.500	422,222	100.00%	2012	100.00%
2012	30,771,412	1.250	384,643	100.00%	2013	100.00%
2013	45,244,828	1.250	565,560	100.00%	2014	100.00%
2014	58,079,868	1.250	725,998	100.00%	2015	100.00%
2015	88,493,690	1.250	1,106,171	99.99%	2016	99.99%
2016	109,602,989	1.250	1,367,974	99.84%	2017	99.99%
2017	114,987,757	1.225	1,403,341	99.16%	2018	99.64%
2018	142,102,882	1.200	1,705,248	99.23%	2019	99.23%

(a) Values provided by the District's Tax Assessor/Collector on report dated May 31, 2019.

Tax Rate Distribution

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Maintenance & Operations:	\$0.130	\$0.130	\$0.285	\$0.370	\$0.640
Contract Tax:	0.910	0.975	0.965	0.880	0.610
Debt Service:	<u>0.160</u>	<u>0.120</u>	<u>0</u>	<u>0</u>	<u>0</u>
	\$1.200	\$1.225	\$1.250	\$1.250	\$1.250

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds	\$191,310,000
Voter Authorized Unlimited Tax Road Bonds	\$ 66,810,000
Voter Authorized Unlimited Tax Park Bonds.....	\$ 10,200,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date	\$ 25,765,000
Debt Service Tax Limitation.....	Unlimited
Maintenance Tax Limitation.....	\$ 1.50
Maintenance Tax for Road Facilities Limitation	\$ 0.25
Contract Tax Limitation.....	Unlimited
Gross Outstanding Direct Debt.....	\$ 24,275,000

2018 Total Market Value (100% of Market Value) (a)	\$623,735,647
2018 Certified Taxable Assessed Valuation (b).....	\$532,106,637
Estimated Taxable Assessed Valuation at January 1, 2019 (c).....	\$566,555,238

Valuation as a Percentage of all Participants:

2018 Total Market Value (100% of Market Value)	63.83%
2018 Certified Taxable Assessed Valuation	60.65%
Estimated Taxable Assessed Valuation at January 1, 2019	55.97%

Average Annual Debt Service on the Bonds and Outstanding Bonds (2019-2044)	\$7,109,313
Pro Rata Share of the Contract Revenue Bonds:	
2018 Certified Taxable Assessed Valuation.....	\$4,331,657
Estimated Taxable Assessed Valuation at January 1, 2019	\$3,978,896

Maximum Annual Debt Service on the Bonds and Outstanding Bonds (2039)	\$7,526,500
Pro Rata Share of the Contract Revenue Bonds:	
2018 Certified Taxable Assessed Valuation	\$4,564,672
Estimated Taxable Assessed Valuation at January 1, 2019	\$4,212,385

Tax Rate Required to Pay Pro Rata Share of Maximum Annual Debt Service on the Bonds and the Outstanding Contract Revenue Bonds (d):

2018 Certified Taxable Assessed Valuation	\$0.91
Estimated Taxable Assessed Valuation at January 1, 2019	\$0.79

Status of Development as of May 1, 2019:

Acreage	929.17
Total Active Equivalent Single-Family Connections (includes residential and non-residential)	1,354
Total Developed Lots.....	1,462

(a) The 2018 Total Market Value as provided by the Harris County Appraisal District ("HCAD") shown here includes HCAD's appraisal of total market value of the Participant as of certification dated May 22, 2019. The Market Value does not exclude exempt property or other exemptions. The Market Value is included for information only, and may not be used to assess ad valorem taxes in the Participant. The Market Value as calculated by HCAD may not reflect what property could sell for in the Participant.

(b) The 2018 Certified Taxable Assessed Value includes the current certified portion, of the owners' as provided by HCAD as of certification dated April 30, 2019. See "TAXING PROCEDURES."

(c) Provided by HCAD for information purposes only. Represents new construction within the District from January 1, 2018 to January 1, 2019. Moreover, the estimate is prior to any protests and the ultimate Assessed Valuation of any improvements added from January 1, 2018 through December 31, 2018, which will be placed on the District's 2019 tax roll, may vary significantly from such estimate once the HCAD Review Board certifies the value thereof in 2019.

(d) Calculated at 95% collections.

Principal Taxpayers

The following table lists the principal taxpayers and such properties' assessed value. This information is based upon the 2018 Certified Taxable Assessed Valuation.

Taxpayer	% of 2018	
	2018 Certified Taxable Assessed Value (a)	Certified Taxable Assessed Valuation
CW SCOA West LP	\$13,566,126	2.55%
Ashton Houston Residential LLC	3,095,983	0.58%
Towne Lake Community Association	2,877,744	0.54%
4102 Richmond LLC	2,522,100	0.47%
Basu Family Holdings LLC	2,492,378	0.47%
Lewis-Chen LLC	2,386,049	0.45%
Keith Anh Huynh	1,710,000	0.32%
Grossman David A. Grossman	1,554,650	0.29%
Homeowner	1,444,668	0.27%
Homeowner	1,431,657	0.27%
	\$33,081,355	6.22%

(a) Includes certified values only as provided by HCAD as of certification dated June 13, 2019. Excludes uncertified value.

Tax Collections

Tax Year	Assessed Valuation	Tax Rate/100	Adjusted Levy	Current Year	Tax Year Ending 9/30	% Collections as of 5/31/19
2008	\$42,262	\$1.350	\$2,108	100.00%	2009	100.00%
2009	1,846,130	1.500	27,692	100.00%	2010	100.00%
2010	8,799,830	1.500	131,998	100.00%	2011	100.00%
2011	16,293,516	1.500	244,403	100.00%	2012	100.00%
2012	32,285,465	1.500	484,283	100.00%	2013	99.93%
2013	86,919,235	1.500	1,303,064	100.00%	2014	100.00%
2014	226,386,320	1.500	3,394,434	100.00%	2015	100.00%
2015	374,804,082	1.450	5,434,857	99.91%	2016	100.00%
2016	476,249,016	1.380	6,572,564	99.76%	2017	99.93%
2017	501,274,300	1.240	6,214,243	98.72%	2018	99.73%
2018	532,106,637	1.185	6,309,796	97.97%	2019	97.97%

(a) Values provided by the District's Tax Assessor/Collector on report dated May 31, 2019.

Tax Rate Distribution

	2018	2017	2016	2015	2014
Maintenance & Operations:	\$0.015	\$0.005	\$0.200	\$0.145	\$0.530
Contract Tax:	0.920	0.985	0.900	0.930	0.660
Debt Service:	<u>0.250</u>	<u>0.250</u>	<u>0.280</u>	<u>0.375</u>	<u>0.310</u>
	\$1.185	\$1.240	\$1.380	\$1.450	\$1.500

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds	\$169,190,000
Voter Authorized Unlimited Tax Road Bonds	\$ 73,750,000
Voter Authorized Unlimited Tax Park Bonds.....	\$ 14,800,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date	\$ 12,340,000
Debt Service Tax Limitation.....	Unlimited
Maintenance Tax Limitation.....	\$1.50
Maintenance Tax for Road Facilities Limitation	\$0.25
Contract Tax Limitation.....	Unlimited
Gross Outstanding Direct Debt.....	\$ 12,290,000

2018 Total Market Value (100% of Market Value) (a)	\$199,450,742
2018 Certified Taxable Assessed Valuation (b).....	\$194,020,621
Estimated Taxable Assessed Valuation at January 1, 2019 (c).....	\$293,001,574

Valuation as a Percentage of all Participants:

2018 Total Market Value (100% of Market Value)	20.41%
2018 Certified Taxable Assessed Valuation	22.11%
Estimated Taxable Assessed Valuation at January 1, 2019	28.94%

Average Annual Debt Service on the Bonds and Outstanding Bonds (2019-2044)	\$7,109,313
Pro Rata Share of the Contract Revenue Bonds:	
2018 Certified Taxable Assessed Valuation	\$1,572,148
Estimated Taxable Assessed Valuation at January 1, 2019	\$2,057,739

Maximum Annual Debt Service on the Bonds and Outstanding Bonds (2039)	\$7,526,500
Pro Rata Share of the Contract Revenue Bonds:	
2018 Certified Taxable Assessed Valuation	\$1,664,404
Estimated Taxable Assessed Valuation at January 1, 2019	\$2,178,491

Tax Rate Required to Pay Pro Rata Share of Maximum Annual Debt Service on the Bonds and the Outstanding Contract Revenue Bonds (d):

2018 Certified Taxable Assessed Valuation	\$0.91
Estimated Taxable Assessed Valuation at January 1, 2019	\$0.79

Status of Development as of May 1, 2019:

Acreage	882.75
Total Active Equivalent Single-Family Connections (includes residential and non-residential).....	674
Total Developed Lots.....	1,099

-
- (a) The 2018 Total Market Value as provided by the Harris County Appraisal District ("HCAD") shown here includes HCAD's appraisal of total market value of the Participant as of certification dated May 22, 2019. The Market Value does not exclude exempt property or other exemptions. The Market Value is included for information only, and may not be used to assess ad valorem taxes in the Participant. The Market Value as calculated by HCAD may not reflect what property could sell for in the Participant.
- (b) The 2018 Certified Taxable Assessed Value includes the current certified portion, of the owners' as provided by HCAD as of certification dated April 30, 2019. See "TAXING PROCEDURES."
- (c) Provided by HCAD for information purposes only. Represents new construction within the District from January 1, 2018 to January 1, 2019. Moreover, the estimate is prior to any protests and the ultimate Assessed Valuation of any improvements added from January 1, 2018 through December 31, 2018, which will be placed on the District's 2019 tax roll, may vary significantly from such estimate once the HCAD Review Board certifies the value thereof in 2019.
- (d) Calculated at 95% collections.

Principal Taxpayers

The following table lists the principal taxpayers and such properties' assessed value. The information is based upon the 2018 Certified Taxable Assessed Valuation.

<u>Taxpayer</u>	<u>2018 Certified Taxable Assessed Value (a)</u>	<u>% of 2018 Certified Taxable Assessed Valuation</u>
CW SCOA West LP	\$30,424,488	15.68%
MHI Partnership Ltd.	4,458,173	2.30%
Weekley Homes LLC	4,291,079	2.21%
Newmark Homes Houston LLC	4,090,535	2.11%
Sitterle Homes Houston LLC	2,414,500	1.24%
Avnee LP	2,339,283	1.21%
Caldwell Homes Texas LP	2,218,174	1.14%
Ravenna Homes LLC	2,125,534	1.10%
Partners In Building LP	1,603,101	0.83%
Lennar Homes of Texas	1,352,731	0.70%
	<u>\$55,317,598</u>	<u>28.51%</u>

(a) Includes certified values only as provided by HCAD as of certification dated June 13, 2019. Excludes uncertified value.

Tax Collections

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate/100</u>	<u>Adjusted Levy</u>	<u>Current Year</u>	<u>Tax Year Ending 9/30</u>	<u>% Collections as of 5/31/19</u>
2010	\$2,143,610	\$1.500	\$32,154	100.00%	2011	100.00%
2011	2,196,206	1.500	32,943	100.00%	2012	100.00%
2012	5,160,689	1.500	76,820	100.00%	2013	99.86%
2013	22,578,287	1.500	337,608	100.00%	2014	100.00%
2014	3,926,216	1.500	58,485	100.00%	2015	100.00%
2015	6,135,876	1.500	92,128	100.00%	2016	100.00%
2016	26,892,834	1.500	403,393	100.00%	2017	100.00%
2017	89,984,510	1.500	1,349,768	98.71%	2018	99.91%
2018	194,020,621	1.500	2,956,929	96.48%	2019	95.94%

(a) Values provided by the District's Tax Assessor/Collector on report dated May 31, 2019.

Tax Rate Distribution

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Maintenance & Operations:	\$0.190	\$0.280	\$0.275	\$1.400	\$1.110
Contract Tax:	0.950	1.010	1.140	0.100	0.390
Debt Service:	<u>0.360</u>	<u>0.210</u>	<u>0.085</u>	<u>0.000</u>	<u>0.000</u>
	\$1.500	\$1.500	\$1.500	\$1.500	\$1.500

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds	\$ 90,285,000
Voter Authorized Unlimited Tax Road Bonds	\$ 56,875,000
Voter Authorized Unlimited Tax Park Bonds.....	\$ 28,990,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date	\$ 0
Debt Service Tax Limitation.....	Unlimited
Maintenance Tax Limitation.....	\$1.50
Maintenance Tax for Road Facilities Limitation	\$0.25
Contract Tax Limitation.....	Unlimited
Gross Outstanding Direct Debt.....	\$ 0
2018 Total Market Value (100% of Market Value) (a)	\$9,284,172
2018 Certified Taxable Assessed Valuation (b).....	\$9,138,592
Estimated Taxable Assessed Valuation at January 1, 2019 (c).....	\$9,138,404
Valuation as a Percentage of all Participants:	
2018 Total Market Value (100% of Market Value)	0.95%
2018 Certified Taxable Assessed Valuation	1.04%
Estimated Taxable Assessed Valuation at January 1, 2019	0.90%
Average Annual Debt Service on the Bonds and Outstanding Bonds (2019-2044)	\$7,109,313
Pro Rata Share of the Contract Revenue Bonds:	
2018 Certified Taxable Assessed Valuation	\$74,050
Estimated Taxable Assessed Valuation at January 1, 2019	\$64,179
Maximum Annual Debt Service on the Bonds and Outstanding Bonds (2039)	\$7,526,500
Pro Rata Share of the Contract Revenue Bonds:	
2018 Certified Taxable Assessed Valuation	\$78,395
Estimated Taxable Assessed Valuation at January 1, 2019	\$67,945
Tax Rate Required to Pay Pro Rata Share of Maximum Annual Debt Service	
on the Bonds and the Outstanding Contract Revenue Bonds (d):	
2018 Certified Taxable Assessed Valuation	\$0.91
Estimated Taxable Assessed Valuation at January 1, 2019	\$0.79

Status of Development as of May 1, 2019:

Acreage	219.95
Total Active Equivalent Single-Family Connections	0
Total Developed Lots.....	0

-
- (a) The 2018 Total Market Value as provided by the Harris County Appraisal District ("HCAD") shown here includes HCAD's appraisal of total market value of the Participant as of certification dated May 22, 2019. The Market Value does not exclude exempt property or other exemptions. The Market Value is included for information only, and may not be used to assess ad valorem taxes in the Participant. The Market Value as calculated by HCAD may not reflect what property could sell for in the Participant.
- (b) The 2018 Certified Taxable Assessed Value includes the current certified portion, of the owners' as provided by HCAD as of certification dated April 30, 2019. See "TAXING PROCEDURES."
- (c) Provided by HCAD for information purposes only. Represents new construction within the District from January 1, 2018 to January 1, 2019. Moreover, the estimate is prior to any protests and the ultimate Assessed Valuation of any improvements added from January 1, 2018 through December 31, 2018, which will be placed on the District's 2019 tax roll, may vary significantly from such estimate once the HCAD Review Board certifies the value thereof in 2019.
- (d) Calculated at 95% collections.

Principal Taxpayers

The following table lists the principal taxpayers and such properties' assessed value. The information is based upon the 2018 Certified Taxable Assessed Valuation.

Taxpayer	2018 Certified Taxable Assessed Value (a)	% of 2018 Certified Taxable Assessed Valuation
CW SCOA West LP	\$9,136,902	99.98%
Centerpoint Energy Houston Electric	690	0.01%
Individual Owner	250	0.00%
Individual Owner	250	0.00%
Individual Owner	250	0.00%
Individual Owner	250	0.00%
Total	\$9,138,592	100.00%

(a) Includes certified values only as provided by HCAD as of certification dated June 13, 2019. Excludes uncertified value.

Tax Collections

Tax Year	Assessed Valuation	Tax Rate/ 100	Adjusted Levy	Current Year	Tax Year Ending 9/30	% Collections as of 5/31/19
2016	\$588,342	\$1.500	\$8,825	100.00%	2017	100.00%
2017	235,016	1.500	3,450	100.00%	2018	100.00%
2018	9,138,592	1.500	137,079	100.00%	2019	100.00%

(a) Values provided by the District's Tax Assessor/Collector on report dated May 31, 2019.

Tax Rate Distribution

	<u>2018</u>	<u>2017</u>	<u>2016*</u>
Maintenance & Operations:	\$0.550	\$0.520	\$0.590
Contract Tax:	0.950	0.980	0.910
Debt Service:	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
	\$1.500	\$1.500	\$1.500

* First year of tax levy.

APPENDIX B
FINANCIAL STATEMENTS OF THE PARTICIPANTS

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2018

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
HARRIS COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
MARCH 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 500
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Harris County Municipal Utility District No. 500 (the "District"), as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Harris County Municipal
Utility District No. 500

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District as of March 31, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

July 10, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018

Management's discussion and analysis of Harris County Municipal Utility District No. 500's (the "District") financial performance provides an overview of the District's financial activities for the year ended March 31, 2018. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The second financial statement is the Statement of Activities. This financial statement reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. This statement includes the District's governmental activities as well as business-type activities (Master District funds).

FUND FINANCIAL STATEMENTS

Governmental Funds - Internal District Activities

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The General Fund (Internal District Activities) accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service/Contract Tax Fund (Internal District Activities) accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing Internal District debt and Master District contractual debt. The Capital Projects Fund (Internal District Activities) accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs. Internal District Activities generally refer to the provision of utility services to the property within and retail customers of the District. Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

FUND FINANCIAL STATEMENTS (Continued)

Governmental Funds - Internal District Activities (Continued)

These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term. The Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

Proprietary Fund - Master District Activities

The District has contracted with several municipal utility districts to serve as the coordinating district (Master District) for the financing, operation, and maintenance of regional water, wastewater, drainage, road facilities, and park and recreational facilities. The District's Enterprise Fund (Master District Activities) is used to account for these business-type activities. The measurement focus is upon determination of net income, financial position, and changes in cash flows.

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. As of March 31, 2018, assets exceeded liabilities by \$1,263,970 for governmental activities (Internal District) and liabilities exceeded assets and deferred outflows of resources by \$12,584,324 for business-type activities (Master District). The following are summaries of net position as of March 31, 2018, and March 31, 2017, and summaries of changes in net position for the years then ended for the District's governmental and business-type activities:

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

2018 Summary Statement of Net Position			
	Governmental Activities (Internal District)	Business-Type Activities (Master District)	Total
Current and Other Assets	\$ 2,204,701	\$ 25,617,969	\$ 27,822,670
Capital Assets (Net of Accumulated Depreciation)	1,173,998	74,129,567	75,303,565
Total Assets	\$ 3,378,699	\$ 99,747,536	\$ 103,126,235
Deferred Outflows of Resources	\$ -0-	\$ 1,062,085	\$ 1,062,085
Bonds Payable	\$ 1,942,667	\$ 98,249,020	\$ 100,191,687
Capital Lease Payable		1,034,497	1,034,497
Due to Developer	76,000	12,816,942	12,892,942
Other Liabilities	96,062	1,293,486	1,389,548
Total Liabilities	\$ 2,114,729	\$ 113,393,945	\$ 115,508,674
Net Position:			
Net Investment in Capital Assets	\$ (639,316)	\$ (20,851,074)	\$ (21,490,390)
Restricted	989,073	7,760,565	8,749,638
Unrestricted	914,213	506,185	1,420,398
Total Net Position	\$ 1,263,970	\$ (12,584,324)	\$ (11,320,354)

2018 Summary Statement of Activities			
	Governmental Activities (Internal District)	Business-Type Activities (Master District)	Total
Program Revenues:			
Charges for Services	\$ 409,382	\$ 7,649,954	\$ 8,059,336
General Revenues:			
Property Taxes	1,430,262		1,430,262
Other Revenues and Transfers	3,226	65,200	68,426
Total Revenues and Transfers	\$ 1,842,870	\$ 7,715,154	\$ 9,558,024
Total Expenses	1,650,595	9,252,115	10,902,710
Change in Net Position	\$ 192,275	\$ (1,536,961)	\$ (1,344,686)
Net Position, Beginning of Year	1,071,695	(11,047,363)	(9,975,668)
Net Position, Ending of Year	\$ 1,263,970	\$ (12,584,324)	\$ (11,320,354)

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

2017 Summary Statement of Net Position			
	Governmental Activities (Internal District)	Business-Type Activities (Master District)	Total
Current and Other Assets	\$ 1,992,800	\$ 15,309,584	\$ 17,302,384
Capital Assets (Net of Accumulated Depreciation)	1,204,111	65,294,913	66,499,024
Total Assets	\$ 3,196,911	\$ 80,604,497	\$ 83,801,408
Deferred Outflows of Resources	\$ -0-	\$ 1,116,039	\$ 1,116,039
Bonds Payable	\$ 1,940,321	\$ 78,482,638	\$ 80,422,959
Capital Lease Payable		1,346,425	1,346,425
Due to Developer	76,000	6,657,455	6,733,455
Other Liabilities	108,895	6,281,381	6,390,276
Total Liabilities	\$ 2,125,216	\$ 92,767,899	\$ 94,893,115
Net Position:			
Net Investment in Capital Assets	\$ (606,519)	\$ (18,190,052)	\$ (18,796,571)
Restricted	796,179	6,169,640	6,965,819
Unrestricted	882,035	973,049	1,855,084
Total Net Position	\$ 1,071,695	\$ (11,047,363)	\$ (9,975,668)

2017 Summary Statement of Activities			
	Governmental Activities (Internal District)	Business-Type Activities (Master District)	Total
Program Revenues:			
Charges for Services	\$ 382,350	\$ 6,268,835	\$ 6,651,185
General Revenues:			
Property Taxes	1,354,240		1,354,240
Other Revenues and Transfers	1,501	13,191	14,692
Total Revenues and Transfers	\$ 1,738,091	\$ 6,282,026	\$ 8,020,117
Total Expenses	1,568,435	7,737,178	9,305,613
Change in Net Position	\$ 169,656	\$ (1,455,152)	\$ (1,285,496)
Net Position, Beginning of Year	902,039	(9,592,211)	(8,690,172)
Net Position, Ending of Year	\$ 1,071,695	\$ (11,047,363)	\$ (9,975,668)

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS
(INTERNAL DISTRICT ACTIVITIES)**

The District's combined fund balances as of March 31, 2018, were \$2,100,332, an increase of \$220,121 from the prior year.

The General Fund fund balance increased by \$36,096, primarily due to service revenues exceeding operating costs.

The Debt Service/Contract Tax Fund fund balance increased by \$184,363, primarily due to the structure of the Internal District's outstanding debt as well as its share of Master District contract tax debt.

The Capital Projects Fund fund balance decreased by \$338.

BUDGETARY HIGHLIGHTS

Each year, the Board of Directors adopts a General Fund (Internal District Activities) budget. Actual revenues were \$107,808 less than budgeted revenues. Actual expenditures were \$27,236 more than budgeted expenditures, primarily due to higher than anticipated repair and maintenance costs as well as tap connection costs.

Each year, the Board of Directors adopts an Enterprise Fund (Master District Activities) budget. Actual operating revenues were less than budgeted operating revenues by \$43,437 and actual operating expenses were \$2,902,347 more than budgeted operating expenses primarily due to depreciation expense which was not budgeted for in the current fiscal year.

CAPITAL ASSETS

Governmental Activities - Internal District Activities

Internal District capital assets as of March 31, 2018, total \$1,173,998 (net of accumulated depreciation) and includes water, wastewater and drainage systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets, Net of Accumulated Depreciation:			
Water System	\$ 310,228	\$ 318,102	\$ (7,874)
Wastewater System	159,226	163,221	(3,995)
Drainage System	704,544	722,788	(18,244)
Total Net Capital Assets	\$ 1,173,998	\$ 1,204,111	\$ (30,113)

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

CAPITAL ASSETS (Continued)

Business-type Activities - Master District Activities

Regional facilities capital assets as of March 31, 2018, total \$74,129,567 (net of accumulated depreciation) and include land, road facilities, landscape and hardscape improvements, and the water, wastewater and drainage facilities.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capitals Assets Not Being Depreciated:			
Land and Land Improvements	\$ 4,301,532	\$ 3,584,517	\$ 717,015
Construction in Progress	268,469	1,338,194	(1,069,725)
Capital Assets, Net of Accumulated Depreciation:			
Water System	5,163,107	4,891,806	271,301
Wastewater System	9,366,565	8,284,478	1,082,087
Drainage System	33,332,046	32,443,905	888,141
Road Facilities	19,185,986	14,752,013	4,433,973
Landscape and Hardscape	2,511,862		2,511,862
Total Net Capital Assets	\$ 74,129,567	\$ 65,294,913	\$ 8,834,654

LONG-TERM DEBT

Governmental Activities - Internal District Activities

The Internal District has recorded a liability to the developer for operating advances made to the District. The District has also issued one series of bonds (Series 2017). Transactions for the year ended March 31, 2018, are summarized as follows:

Bonds Payable, April 1, 2017	\$ 2,000,000
Less: Bond Principal Paid	
Bonds Payable, March 31, 2018	\$ 2,000,000

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

LONG-TERM DEBT (Continued)

Business-type Activities - Master District Activities

The Master District has recorded a liability to the developer for facilities constructed on behalf of the District. The Master District reimburses the developer for these costs through the issuance of contract revenue bonds. Transactions for the year ended March 31, 2018, are summarized as follows:

Contract Revenue Bonds Payable, April 1, 2017	\$ 80,580,000
Add: Bond Sales	21,510,000
Less: Bond Principal Paid	<u>1,860,000</u>
Contract Revenue Bonds Payable, March 31, 2018	<u>\$ 100,230,000</u>

The Master District carries an underlying rating of "Baa1" by Moody's. The Master District's Series 2010, 2012, 2013, 2014, 2015 (Road) and 2015 bonds do not carry insured ratings. The Master District's Series 2016, 2016 (Road), 2017, 2017 (Refunding) and 2018 (Road) bonds carry insured ratings of "A2" by Moody's and "AA" by Standard and Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp. Bond ratings are subject to change based on changes to the ratings with the insurers.

The Master District has recorded capital leases payable of \$1,034,497 for District facilities. Transactions for the year ended March 31, 2018, are summarized as follows:

Total Capital Leases Payable, April 1, 2017	\$ 1,346,425
Less: Principal Paid	<u>311,928</u>
Total Capital Leases Payable, March 31, 2018	<u>\$ 1,034,497</u>

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the Internal District and Master District finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 500, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
STATEMENT OF NET POSITION
MARCH 31, 2018

	Primary Government		Total
	Governmental Activities (Internal District)	Business-Type Activities (Master District)	
ASSETS			
Current Assets:			
Cash	\$ 2,157,217	\$ 565,819	\$ 2,723,036
Restricted Cash		16,082,696	16,082,696
Restricted Investments		8,887,048	8,887,048
Receivables:			
Property Taxes	14,584		14,584
Service Accounts	32,900	2,000	34,900
Prepaid Costs		80,406	80,406
Total Current Assets	<u>\$ 2,204,701</u>	<u>\$ 25,617,969</u>	<u>\$ 27,822,670</u>
Noncurrent Assets:			
Land and Land Improvements	\$	\$ 4,301,532	\$ 4,301,532
Construction in Progress		268,469	268,469
Capital Assets (Net of Accumulated Depreciation)	<u>1,173,998</u>	<u>69,559,566</u>	<u>70,733,564</u>
Total Noncurrent Assets:	<u>\$ 1,173,998</u>	<u>\$ 74,129,567</u>	<u>\$ 75,303,565</u>
TOTAL ASSETS	<u>\$ 3,378,699</u>	<u>\$ 99,747,536</u>	<u>\$ 103,126,235</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charges on Refunding Bonds	\$ - 0 -	\$ 1,062,085	\$ 1,062,085
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 3,378,699</u>	<u>\$ 100,809,621</u>	<u>\$ 104,188,320</u>
LIABILITIES AND NET POSITION			
Current Liabilities:			
Accounts Payable	\$ 21,110	\$ 174,491	195,601
Due to Developer		8,290,572	8,290,572
Accrued Bond Interest Payable	6,277	1,118,995	1,125,272
Capital Leases Payable, Due Within One Year		435,595	435,595
Bonds Payable, Due Within One Year	40,000	2,165,000	2,205,000
Total Current Liabilities	<u>\$ 67,387</u>	<u>\$ 12,184,653</u>	<u>\$ 12,252,040</u>
Noncurrent Liabilities:			
Due to Developer	\$ 76,000	\$ 4,526,370	\$ 4,602,370
Capital Leases Payable, Due After One Year		598,902	598,902
Bonds Payable, Due After One Year	1,902,667	96,084,020	97,986,687
Security Deposits	68,675		68,675
Total Noncurrent Liabilities	<u>\$ 2,047,342</u>	<u>\$ 101,209,292</u>	<u>\$ 103,256,634</u>
TOTAL LIABILITIES	<u>\$ 2,114,729</u>	<u>\$ 113,393,945</u>	<u>\$ 115,508,674</u>
NET POSITION			
Net Investment in Capital Assets	\$ (639,316)	\$ (20,851,074)	\$ (21,490,390)
Restricted for Debt Service	989,073	7,760,565	8,749,638
Unrestricted	914,213	506,185	1,420,398
TOTAL NET POSITION	<u>\$ 1,263,970</u>	<u>\$ (12,584,324)</u>	<u>\$ (11,320,354)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,378,699</u>	<u>\$ 100,809,621</u>	<u>\$ 104,188,320</u>

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
STATEMENT OF ACTIVITIES
MARCH 31, 2018

	Expenses	Program Revenues	
		Charges for Services	Charges For Regional Services
GOVERNMENTAL ACTIVITIES (INTERNAL DISTRICT)			
Service Operations	\$ 647,447	\$ 409,382	\$
Contractual Obligation	1,003,148		
TOTAL GOVERNMENTAL ACTIVITIES (INTERNAL DISTRICT)	\$ 1,650,595	\$ 409,382	\$ -0-
BUSINESS-TYPE ACTIVITIES (MASTER DISTRICT)			
Regional Service Operations	\$ 2,252,483	\$ 37,165	\$ 7,612,789
Depreciation	2,159,884		
Debt Issuance Costs	1,645,818		
Capital Lease Interest Expense	55,771		
Bond Interest Expense	3,138,159		
TOTAL BUSINESS-TYPE ACTIVITIES (MASTER DISTRICT)	\$ 9,252,115	\$ 37,165	\$ 7,612,789
TOTAL PRIMARY GOVERNMENT	\$ 10,902,710	\$ 446,547	\$ 7,612,789
GENERAL REVENUES AND TRANSFERS			
Property Taxes			
Investment Income			
TOTAL GENERAL REVENUES AND TRANSFERS			
CHANGE IN NET POSITION			
NET POSITION - APRIL 1, 2017			
NET POSITION - MARCH 31, 2018			

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

Net Revenue (Expense) and Changes in Net Position Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (238,065)	\$	\$ (238,065)
<u>(1,003,148)</u>		<u>(1,003,148)</u>
\$ (1,241,213)	\$ -0-	\$ (1,241,213)
\$	\$ 5,397,471	\$ 5,397,471
	(2,159,884)	(2,159,884)
	(1,645,818)	(1,645,818)
	(55,771)	(55,771)
	<u>(3,138,159)</u>	<u>(3,138,159)</u>
\$ -0-	\$ (1,602,161)	\$ (1,602,161)
<u>\$ (1,241,213)</u>	<u>\$ (1,602,161)</u>	<u>\$ (2,843,374)</u>
\$ 1,430,262	\$	\$ 1,430,262
<u>3,226</u>	<u>65,200</u>	<u>68,426</u>
\$ 1,433,488	\$ 65,200	\$ 1,498,688
\$ 192,275	\$ (1,536,961)	\$ (1,344,686)
<u>1,071,695</u>	<u>(11,047,363)</u>	<u>(9,975,668)</u>
<u>\$ 1,263,970</u>	<u>\$ (12,584,324)</u>	<u>\$ (11,320,354)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
GOVERNMENTAL FUNDS BALANCE SHEET (INTERNAL DISTRICT ACTIVITIES)
MARCH 31, 2018

	General Fund	Debt Service/ Contract Tax Fund	Capital Projects Fund	Total
ASSETS				
Cash	\$ 1,018,783	\$ 1,008,998	\$ 129,436	\$ 2,157,217
Property Taxes Receivable	1,553	13,031		14,584
Service Accounts Receivable	32,900			32,900
Due From Other Funds	26,762			26,762
TOTAL ASSETS	\$ 1,079,998	\$ 1,022,029	\$ 129,436	\$ 2,231,463
LIABILITIES				
Accounts Payable	\$ 21,110	\$	\$	\$ 21,110
Due to Other Funds		26,679	83	26,762
Security Deposits	68,675			68,675
TOTAL LIABILITIES	\$ 89,785	\$ 26,679	\$ 83	\$ 116,547
DEFERRED INFLOWS OF RESOURCES				
Property Taxes	\$ 1,553	\$ 13,031	\$ - 0 -	\$ 14,584
FUND BALANCES				
Restricted for Authorized Construction	\$	\$	\$ 129,353	\$ 129,353
Restricted for Contractual Obligations		767,049		767,049
Restricted for Internal District Debt		215,270		215,270
Assigned to 2019 Budget	21,900			21,900
Unassigned	966,760			966,760
TOTAL FUND BALANCES	\$ 988,660	\$ 982,319	\$ 129,353	\$ 2,100,332
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 1,079,998	\$ 1,022,029	\$ 129,436	\$ 2,231,463

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION (INTERNAL DISTRICT ACTIVITIES)
MARCH 31, 2018

Total Fund Balances - Governmental Funds	\$	2,100,332
Amounts Reported for Governmental Activities in the Statement of Net Position are different because:		
Capital assets are not current financial resources and, therefore, are not reported as assets in governmental funds.		1,173,998
Deferred inflows of resources related to property tax revenues for the 2017 and prior tax levy became part of recognized revenue in the governmental activities of the District.		14,584
Long-term liabilities not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Due to Developer	\$ (76,000)	
Accrued Interest Payable	(6,277)	
Bonds Payable	<u>(1,942,667)</u>	<u>(2,024,944)</u>
Total Net Position - Governmental Activities	\$	<u>1,263,970</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS (INTERNAL DISTRICT ACTIVITIES)
FOR THE YEAR ENDED MARCH 31, 2018

	<u>General Fund</u>	<u>Debt Service/ Contract Tax Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
REVENUES				
Property Taxes	\$ 154,614	\$ 1,285,055	\$	\$ 1,439,669
Water Service	134,936			134,936
Wastewater Service	114,205			114,205
Tap Connection and Inspection Fees	43,615			43,615
Regional Water Authority Fees	112,469			112,469
Penalty and Interest	1,054	3,103		4,157
Miscellaneous Revenues	1,419	1,516	291	3,226
TOTAL REVENUES	<u>\$ 562,312</u>	<u>\$ 1,289,674</u>	<u>\$ 291</u>	<u>\$ 1,852,277</u>
EXPENDITURES				
Service Operations:				
Professional Fees	\$ 78,966	\$ 136	\$ 274	\$ 79,376
Contracted Services	16,681	18,716		35,397
Purchased Water and Wastewater Service	340,740			340,740
Repairs and Maintenance	40,101			40,101
Other	49,728	3,380	217	53,325
Debt Service:				
Bond Interest		79,931		79,931
Bond Issuance Costs			138	138
Contractual Obligation		1,003,148		1,003,148
TOTAL EXPENDITURES	<u>\$ 526,216</u>	<u>\$ 1,105,311</u>	<u>\$ 629</u>	<u>\$ 1,632,156</u>
NET CHANGE IN FUND BALANCES	\$ 36,096	\$ 184,363	\$ (338)	\$ 220,121
FUND BALANCES - APRIL 1, 2017	<u>952,564</u>	<u>797,956</u>	<u>129,691</u>	<u>1,880,211</u>
FUND BALANCES - MARCH 31, 2018	<u>\$ 988,660</u>	<u>\$ 982,319</u>	<u>\$ 129,353</u>	<u>\$ 2,100,332</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES (INTERNAL DISTRICT ACTIVITIES)
FOR THE YEAR ENDED MARCH 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$	220,121
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		(9,407)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(30,113)
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		<u>11,674</u>
Change in Net Position - Governmental Activities	\$	<u>192,275</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
STATEMENT OF NET POSITION - ENTERPRISE FUND
(MASTER DISTRICT ACTIVITIES)
MARCH 31, 2018

	Business-type Activities - (Master District) Enterprise Fund
<u>ASSETS</u>	
CURRENT ASSETS	
Cash	\$ 565,819
Restricted Cash	16,082,696
Restricted Investments	8,887,048
Receivables:	
Service Accounts Receivable	2,000
Prepaid Costs	80,406
TOTAL CURRENT ASSETS	\$ 25,617,969
Land and Land Improvements	\$ 4,301,532
Construction in Progress	268,469
Capital Assets (Net of Accumulated Depreciation)	69,559,566
TOTAL NONCURRENT ASSETS	\$ 74,129,567
TOTAL ASSETS	\$ 99,747,536
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charges on Refunding Bonds	\$ 1,062,085
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 100,809,621
<u>LIABILITIES AND NET POSITION</u>	
CURRENT LIABILITIES	
Accounts Payable	\$ 174,491
Due to Developer	8,290,572
Accrued Bond Interest Payable	1,118,995
Capital Leases Payable, Due Within One Year	435,595
Bonds Payable, Due Within One Year	2,165,000
TOTAL CURRENT LIABILITIES	\$ 12,184,653
NONCURRENT LIABILITIES	
Due to Developer	\$ 4,526,370
Capital Leases Payable, Due After One Year	598,902
Bonds Payable, Due After One Year	96,084,020
TOTAL NONCURRENT LIABILITIES	\$ 101,209,292
TOTAL LIABILITIES	\$ 113,393,945
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$ (20,851,074)
Restricted for Debt Service	7,760,565
Unrestricted	506,185
TOTAL NET POSITION	\$ (12,584,324)
TOTAL LIABILITIES AND NET POSITION	\$ 100,809,621

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
POSITION - ENTERPRISE FUND (MASTER DISTRICT ACTIVITIES)
FOR THE YEAR ENDED MARCH 31, 2018

	Business-type (Master District) Activities - Enterprise Fund
OPERATING REVENUES	
Service Revenues	\$ 1,578,555
Non-Potable Water Service	37,165
Miscellaneous Revenue	1,433
TOTAL OPERATING REVENUES	\$ 1,617,153
OPERATING EXPENSES	
Professional Fees	\$ 580,397
Contracted Services	241,040
Repair and Maintenance	494,699
Utilities	99,335
Depreciation	2,159,884
Other	837,012
TOTAL OPERATING EXPENSES	\$ 4,412,367
OPERATING INCOME (LOSS)	\$ (2,795,214)
NONOPERATING REVENUES (EXPENSES)	
Investment Income	\$ 65,200
Contractual Obligations from Participants	6,032,801
Debt Issuance Costs	(1,645,818)
Capital Lease Interest Expense	(55,771)
Bond Interest Expense	(3,138,159)
TOTAL NONOPERATING REVENUES (EXPENSES)	\$ 1,258,253
CHANGE IN NET POSITION	\$ (1,536,961)
NET POSITION - APRIL 1, 2017	(11,047,363)
NET POSITION - MARCH 31, 2018	\$ (12,584,324)

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
STATEMENT OF CASH FLOWS – ENTERPRISE FUND
(MASTER DISTRICT ACTIVITIES)
FOR THE YEAR ENDED MARCH 31, 2018

	Business-type (Master District) Activities - Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Participants and Others	\$ 1,702,680
Cash Payments for Goods and Services	<u>(2,520,663)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (817,983)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Contract Tax Payments from Participants	\$ 6,032,801
Payments for Capital Assets	(4,835,051)
Developer Reimbursement	(40,122)
Interest Expense	(3,119,255)
Bond Proceeds	21,510,000
Bond Principal Paid	(1,860,000)
Capital Lease Principal Paid	(311,928)
Debt Issuance Costs	(1,581,807)
Bond Discount	73,819
Bond Premium	42,563
Deferred Charges on Refunding Bonds	53,954
Bond Anticipation Note Payoff	<u>(4,816,000)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 11,148,974</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Receipt of Interest	<u>\$ 65,200</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 10,396,191
CASH AND CASH EQUIVALENTS - APRIL 1, 2017	<u>15,139,372</u>
CASH AND CASH EQUIVALENTS - MARCH 31, 2018	<u><u>\$ 25,535,563</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ (2,795,214)
Depreciation	2,159,884
(Increase) Decrease in Service Fees Receivable	227
(Increase) Decrease in Other Receivables	85,300
(Increase) Decrease in Prepaid Expenses	2,279
Increase (Decrease) in Accounts Payable	<u>(270,459)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (817,983)</u></u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 500 (the “District”) was created effective June 25, 2007, by an Order of the Texas Commission on Environmental Quality, (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, drainage, solid waste collection and disposal, including recycling, and to construct roads, parks and recreational facilities for the residents of the District. The District is located within the extraterritorial jurisdiction of the City of Houston, Texas. The Board of Directors held its first meeting on August 27, 2007.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

The District serves as the “Master District” for the financing, operation, and maintenance of regional water, sanitary sewer, drainage, road, and park and recreational facilities for the Participants. See Note 13. These facilities are under the oversight of the District’s Board of Directors and financial activity of the Master District has been accounted for in the enterprise fund of the District. Separate financial statements for the Master District are not prepared.

Financial Statement Presentation

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The statements distinguish between governmental and business-type activities. The Statement of Net Position is reported on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

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

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

Debt Service/Contract Tax Fund – Internal District Activities - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing Internal District debt and Master District contractual debt.

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

Enterprise Fund – Master District Activities - The District has contracted with several municipal utility districts to serve as the coordinating district (Master District) for the financing, operation, and maintenance of regional water, wastewater, drainage, road, and park and recreational facilities. The District's Enterprise Fund is used to account for these business-type activities. The measurement focus is upon determination of net income, financial position, and changes in cash flows.

Basis of Accounting

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. In the Internal District Activities, the Debt Service/Contract Tax Fund owed the General Fund \$25,929 for contract tax collections, \$750 for fiscal agent fees and the Capital Projects Fund owed the General Fund \$83 for legal costs paid on behalf of the Capital Projects Fund.

Capital Assets

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

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
Road Facilities	30-45
Landscape and Hardscape	10-20

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts unappropriated budgets for both the General Fund and Enterprise Fund. The budgets were not amended during the current fiscal year.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

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

The business-type activities (enterprise fund) utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with its activities are reported. Proprietary fund equity is classified as net position.

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

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

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and the Internal District has assigned \$21,900 of its General Fund fund balance to cover a budgeted shortfall in fiscal-year 2019.

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT - INTERNAL DISTRICT

	<u>Series 2017</u>
Amount Outstanding - March 31, 2018	\$2,000,000
Interest Rates	3.00%-4.10%
Maturity Dates – Serially Beginning/Ending	September 1, 2018/2042
Interest Payment Dates	September 1, March 1
Callable Dates	September 1, 2025*

* The bonds are subject to redemption at the option of the District prior to their maturity in whole or from time to time in part, on the call date or any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2017 term bonds maturing September 1, 2034, September 1, 2036, September 1, 2039 and September 1, 2042, are subject to mandatory redemption beginning September 1, 2031, September 1, 2035, September 1, 2037 and September 1, 2040, respectively.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 3. LONG-TERM DEBT - INTERNAL DISTRICT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2018:

	April 1, 2017	Additions	Retirements	March 31, 2018
Bonds Payable	\$ 2,000,000	\$	\$	\$ 2,000,000
Unamortized Discount	(59,679)		(2,346)	(57,333)
Bonds Payable, Net	\$ 1,940,321	\$ -0-	\$ (2,346)	\$ 1,942,667
		Amount Due Within One Year		\$ 40,000
		Amount Due After One Year		1,902,667
		Bonds Payable, Net		\$ 1,942,667

As of March 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 40,000	\$ 74,728	\$ 114,728
2020	45,000	73,452	118,452
2021	45,000	72,103	117,103
2022	50,000	70,678	120,678
2023	50,000	69,177	119,177
2024-2028	295,000	319,502	614,502
2029-2033	380,000	259,720	639,720
2034-2038	480,000	174,550	654,550
2039-2043	615,000	65,474	680,474
	\$ 2,000,000	\$ 1,179,384	\$ 3,179,384

During the year ended March 31, 2018, the District levied an ad valorem debt service tax rate of \$0.12 per \$100 of assessed valuation, which resulted in a tax levy of \$152,727 on the adjusted taxable valuation of \$117,482,689 for the 2017 tax year. The bond resolution requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 6 for the maintenance tax levy and Note 7 for the contract tax levy.

As of March 31, 2018, the District had authorized but unissued water, sewer and drainage bonds, and related refunding bonds of \$29,250,000, recreational facilities bonds, and related refunding bonds of \$20,000,000 and road bonds and related refunding bonds of \$14,230,000. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes. Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$18,805,732 and the bank balance was \$18,803,518. The District was not exposed to custodial credit risk at year-end. The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2018, as listed below:

GENERAL FUND (INTERNAL DISTRICT ACTIVITIES)	\$ 1,018,783
DEBT SERVICE/CONTRACT TAX FUND (INTERNAL DISTRICT ACTIVITIES)	1,008,998
CAPITAL PROJECTS FUND (INTERNAL DISTRICT ACTIVITIES)	129,436
ENTERPRISE FUND (MASTER DISTRICT ACTIVITIES)	565,819
ENTERPRISE FUND (MASTER DISTRICT ACTIVITIES) - RESTRICTED FOR CAPITAL PROJECTS	<u>16,082,696</u>
TOTAL DEPOSITS	<u>\$ 18,805,732</u>

Investments

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors. The District's investment in the money market mutual fund is valued at amortized cost, which is consistent with the methodology used by the money market fund to value its portfolio assets.

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

As of March 31, 2018, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>ENTERPRISE FUND</u> <u>(MASTER DISTRICT</u> <u>ACTIVITIES) -</u>		
Money Market Mutual Funds	\$ 8,887,048	\$ 8,887,048

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2018, the District's investment in the money market mutual fund was rated A-1+ by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in the money market mutual fund to have a maturity of less than one-year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

All cash and investments of the Debt Service/Contract Tax Fund are restricted, committed or assigned for the payment of contractual debt and debt service on internal district bonds. All cash and cash investments of the Capital Projects Fund are restricted for the purchase of capital assets. All cash and investments of the Enterprise Fund (Master District Activities) are restricted for activities related to the regional facilities.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 5. CAPITAL ASSETS

Governmental Activities – Internal District Activities

	April 1, 2017	Increases	Decreases	March 31, 2018
Capital Assets Subject to Depreciation				
Water System	\$ 354,332	\$	\$	\$ 354,332
Wastewater System	179,785			179,785
Drainage System	820,995			820,995
Total Capital Assets				
Subject to Depreciation	<u>\$ 1,355,112</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 1,355,112</u>
Less Accumulated Depreciation				
Water System	\$ 36,230	\$ 7,874	\$	\$ 44,104
Wastewater System	16,564	3,995		20,559
Drainage System	98,207	18,244		116,451
Total Accumulated Depreciation	<u>\$ 151,001</u>	<u>\$ 30,113</u>	<u>\$ - 0 -</u>	<u>\$ 181,114</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,204,111</u>	<u>\$ (30,113)</u>	<u>\$ - 0 -</u>	<u>\$ 1,173,998</u>

Business-type Activities - Master District Activities

Business-type capital assets include the regional facilities which are under the oversight of the District in its capacity as the Master District.

	April 1, 2017	Increases	Decreases	March 31, 2018
Capital Assets Not Subject to Depreciation				
Land and Land Improvements	\$ 3,584,517	\$ 717,015	\$	\$ 4,301,532
Construction in Progress	1,338,194	10,994,538	12,064,263	268,469
Total Capital Assets Not Subject to Depreciation				
Depreciation	<u>\$ 4,922,711</u>	<u>\$ 11,711,553</u>	<u>\$ 12,064,263</u>	<u>\$ 4,570,001</u>
Capital Assets Subject to Depreciation				
Water System	\$ 5,365,564	\$ 413,011	\$	\$ 5,778,575
Wastewater System	9,100,119	1,374,377		10,474,496
Drainage System	36,520,057	1,770,853		38,290,910
Road Facilities	16,370,406	5,044,202		21,414,608
Landscape and Hardscape		2,744,805		2,744,805
Total Capital Assets				
Subject to Depreciation	<u>\$ 67,356,146</u>	<u>\$ 11,347,248</u>	<u>\$ - 0 -</u>	<u>\$ 78,703,394</u>
Less Accumulated Depreciation				
Water System	\$ 473,758	\$ 141,710	\$	\$ 615,468
Wastewater System	815,641	292,290		1,107,931
Drainage System	4,076,152	882,712		4,958,864
Road Facilities	1,618,393	610,229		2,228,622
Landscape and Hardscape		232,943		232,943
Total Accumulated Depreciation	<u>\$ 6,983,944</u>	<u>\$ 2,159,884</u>	<u>\$ - 0 -</u>	<u>\$ 9,143,828</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 60,372,202</u>	<u>\$ 9,187,364</u>	<u>\$ - 0 -</u>	<u>\$ 69,559,566</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 65,294,913</u>	<u>\$ 20,898,917</u>	<u>\$ 12,064,263</u>	<u>\$ 74,129,567</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 6. MAINTENANCE TAX

On November 6, 2007, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used by the General Fund (Internal District Activities) to pay expenditures for operations and maintenance of the District. During the year ended March 31, 2018, the District levied an ad valorem maintenance tax rate of \$0.13 per \$100 of assessed valuation, which resulted in a tax levy of \$152,727 on the adjusted taxable valuation of \$117,482,689 for the 2017 tax year.

On November 4, 2008, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$0.25 per \$100 of assessed valuation of taxable property within the District for purposes of constructing and maintaining roads within the District. The District's tax calendar is as follows:

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

NOTE 7. CONTRACT TAX

The voters have approved the levy and collection of an annual contract tax imposed on all taxable property within the boundaries of the District in an unlimited amount per \$100 of assessed valuation for purposes of making payments of the District's share of the debt service requirements of the Master District's water, sewer, drainage, road, and park contract revenue bonds, and for monthly charges associated with the services from the Master District's regional water, sewer, drainage, road, and park facilities. See Note 13. During the current year, the District levied an ad valorem contract tax rate of \$0.975 per \$100 of assessed valuation, which resulted in a tax levy of \$1,145,456 on the adjusted taxable valuation of \$117,482,689 for the 2017 tax year.

NOTE 8. STRATEGIC PARTNERSHIP AGREEMENT

On November 13, 2008, the City of Houston (the City), the Towne Lake Management District (the "MMD") and the District entered into a Strategic Partnership Agreement ("Agreement"). The Agreement provides for the annexation of a tract of land in the District for limited purposes for the imposition of a Sales and Use Tax. The City shall pay to the MMD an amount equal to 50% of the Sales and Use Tax revenues received by the City and generated within the boundaries of the tract. The District agrees to pay to the City an annual fee of \$100 for the provision of municipal services provided in lieu of full purpose annexation. The City agrees to not annex or attempt to annex the District for full purposes unless it simultaneously annexes for full purposes Harris County Municipal Utility District Nos. 500, 501 and 503. The term of this agreement is 30 years from the effective date.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 9. UNREIMBURSED COSTS

The District has entered into financing agreements with its developer. The agreements call for the developer to fund costs associated with water, sewer, drainage, park and road facilities until such time as the District can sell bonds to reimburse its developer. Reimbursement to the developer will come from future bond sales. See also Note 5, 13 and 16.

NOTE 10. RISK MANAGEMENT

The District carries insurance to protect against 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. There have been no significant reductions in coverage from prior year and settlements have not exceeded coverage in the last three years.

NOTE 11. WATER TRUNKLINE FINANCING AGREEMENT

On August 13, 2008, the District entered into a Water Trunkline Financing Agreement with the West Harris County Regional Water Authority, as amended August 1, 2011. The District funded the portion of the construction of the trunkline that is equal to 50% of the percentage of capacity in the trunkline needed by the District. The Authority constructed the trunkline to deliver 2,870,000 GPD to the District's water plant no. 1.

NOTE 12. INTERIM WATER CAPACITY LEASE, SURFACE WATER SUPPLY, AND EMERGENCY INTERCONNECT AGREEMENT

On April 23, 2008, the District as Master District entered into an Interim Water Capacity Lease, Surface Water Supply and Emergency Interconnect Agreement (Agreement) with Remington Municipal Utility District No. 1 ("Remington"). This agreement was amended on March 25, 2009, October 28, 2009, August 25, 2010, December 23, 2011, and on February 22, 2012.

On March 3, 2010, the District as Master District entered into an Interim Water Supply Agreement ("Interim Agreement") with Harris County Municipal Utility District No. 172 ("MUD 172").

NOTE 13. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES

On August 8, 2008, Harris County Municipal Utility District No. 500 as Master District (the "Master District") executed a 40-year contract with the Participants for the financing, operation and maintenance of the Master District's regional water, wastewater and drainage facilities as well as park and road facilities. This contract was amended on November 3, 2010, October 2, 2013, (approved on October 15, 2013, by District No. 501), December 3, 2014, and entered into by Harris County Municipal Utility District No. 503 on August 3, 2016.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 13. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES (Continued)

The Master District administers the contract for the Participants which includes the District, Harris County Municipal Utility District No. 501 (“District No. 501”), Harris County Municipal Utility District No. 502 (“District No. 502”), and Harris County Municipal Utility District No. 503 (“District No. 503”).

Each Participant has contracted with the Master District to provide, receive, and transport its water supply, sanitary waste, and storm waters through the Master District facilities. The Master District has assumed the responsibility of providing parks and major roadways. The Master District finances the Master District facilities through the issuance of Master District contract revenue bonds. The Master District has the authority to issue water, wastewater and drainage bonds not to exceed \$754,660,000, road bonds not to exceed \$350,600,000 and park bonds not to exceed \$64,550,000. As of March 31, 2018, the Master District has authorized but unissued water, wastewater and drainage bonds of \$683,915,000, road bonds of \$317,650,000 and park bonds of \$64,550,000.

Each Participant is responsible for its pro rata share of the debt service requirements on the Master District contract revenue bonds. The Master District owns and operates the Master District facilities, except to the extent roadways and storm sewers are accepted for maintenance by Harris County or other governmental entities. The Master District prepares an operating budget annually. The budget is based on annual estimates provided by each Participant to the Master District for waste discharge, water usage and connections. Each Participant’s monthly bill is determined by multiplying the total number of equivalent single family residential connections reserved for the Participant on the first day of the previous month by the unit cost per equivalent single-family connection (ESFC) shown in the budget for each Participant. The 2018 fiscal year end unit cost per ESFC was \$45 and the 2019 fiscal year end unit cost per ESFC is \$50. The contract also provides for an operating reserve equal to three months operating expenses as set forth in the annual budget. As of March 31, 2018, a reserve has not been established.

During the year ended March 31, 2018, the Internal District made payments of \$340,740, District No. 501 made payments of \$774,090 and District No. 502 made payments of \$463,725 to the Master District for purchased water and wastewater services.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 13. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES (Continued)

The District has the following Master District contract revenue bonds outstanding at year end:

	Series 2010 Water, Sewer and Drainage Facilities	Series 2012 Water, Sewer and Drainage Facilities	Series 2013 Water, Sewer and Drainage Facilities
Amount Outstanding - March 31, 2018	\$955,000	\$4,530,000	\$7,580,000
Interest Rates	5.60%-6.00%	2.50%-4.125%	3.10%-5.00%
Maturity Dates - Serially Beginning/Ending	December 1, 2018/2022	December 1, 2018/2039	December 1, 2018/2040
Interest Payment Dates	June 1, December 1	June 1, December 1	June 1, December 1
Callable Dates	December 1, 2020*	December 1, 2020*	December 1, 2021*
	Series 2014 Water, Sewer and Drainage Facilities	Series 2015 Road Facilities	Series 2015 Water, Sewer and Drainage Facilities
Amount Outstanding - March 31, 2018	\$5,335,000	\$10,325,000	\$15,530,000
Interest Rates	2.40%-4.00%	2.20%-4.00%	2.00%-4.00%
Maturity Dates - Serially Beginning/Ending	December 1, 2018/2039	December 1, 2018/2039	December 1, 2018/2040
Interest Payment Dates	June 1, December 1	June 1, December 1	June 1, December 1
Callable Dates	December 1, 2022*	December 1, 2022*	December 1, 2023*

* The bonds are subject to redemption at the option of the District prior to their maturity in whole or from time to time in part, on the call date or any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2012 term bonds maturing December 1, 2029, December 1, 2031, December 1, 2034 and December 1, 2039, are subject to mandatory redemption beginning December 1, 2028, December 1, 2030, December 1, 2032, and December 1, 2039, respectively. Series 2013 term bonds maturing December 1, 2024, December 1, 2026, December 1, 2028, December 1, 2030, December 1, 2035 and December 1, 2040, are subject to mandatory redemption beginning December 1, 2023, December 1, 2025, December 1, 2027, December 1, 2029, December 1, 2031, and December 1, 2036, respectively. Series 2014 term bonds maturing December 1, 2030, December 1, 2032, December 1, 2035, and December 1, 2039, are subject to mandatory redemption beginning December 1, 2029, December 1, 2031, December 1, 2034, and December 1, 2036, respectively. Series 2015 (Road) term bonds maturing December 1, 2033, December 1, 2035, and December 1, 2039, are subject to mandatory redemption beginning December 1, 2029, December 1, 2034, and December 1, 2036, respectively. Series 2015 term bonds maturing December 1, 2037, and December 1, 2040, are subject to mandatory redemption beginning December 1, 2035, and December 1, 2038, respectively.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 13. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES (Continued)

	Series 2016 Taxable Water, Sewer and Drainage Facilities	Series 2016 Road Facilities	Series 2017 Water, Sewer and Drainage Facilities Refunding
Amount Outstanding - March 31, 2018	\$15,675,000	\$12,190,000	\$6,600,000
Interest Rates	3.00%-4.00%	2.00%-4.00%	2.00%-4.00%
Maturity Dates - Serially Beginning/Ending	December 1, 2018/2041	December 1, 2018/2041	December 1, 2018/2037
Interest Payment Dates	June 1, December 1	June 1, December 1	June 1, December 1
Callable Dates	December 1, 2023*	December 1, 2024*	December 1, 2025*

	Series 2017 Water, Sewer and Drainage Facilities	Series 2018 Road Facilities
Amount Outstanding - March 31, 2018	\$11,875,000	\$9,635,000
Interest Rates	2.00%-3.50%	3.00%-5.00%
Maturity Dates - Serially Beginning/Ending	December 1, 2018/2042	December 1, 2019/2042
Interest Payment Dates	June 1, December 1	June 1, December 1
Callable Dates	December 1, 2025*	December 1, 2025*

* The bonds are subject to redemption at the option of the District prior to their maturity in whole or from time to time in part, on the call date or any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2016 term bonds maturing December 1, 2039, and December 1, 2041, are subject to mandatory redemption beginning December 1, 2038, and December 1, 2040, respectively. Series 2016 (Road) term bonds maturing December 1, 2026, December 1, 2034, December 1, 2039 and December 1, 2041, are subject to mandatory redemption beginning December 1, 2025, December 1, 2033, December 1, 2038 and December 1, 2040, respectively. Series 2017 term bonds maturing December 1, 2030, December 1, 2033, December 1, 2039, and December 1, 2042 are subject to mandatory redemption beginning December 1, 2028, December 1, 2031, December 1, 2038, and December 1, 2041, respectively. Series 2018 (Road) term bonds maturing December 1, 2031, December 1, 2033, December 1, 2035, December 1, 2037, December 1, 2039 and December 1, 2042, are subject to mandatory redemption beginning December 1, 2030, December 1, 2032, December 1, 2034, December 1, 2036, December 1, 2038 and December 1, 2040, respectively.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 13. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES (Continued)

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2018:

	April 1, 2017	Additions	Retirements	March 31, 2018
Bonds Payable	\$ 80,580,000	\$ 21,510,000	\$ 1,860,000	\$ 100,230,000
Unamortized Discounts	(2,097,362)	(19,641)	(93,460)	(2,023,543)
Unamortized Premiums		43,130	567	42,563
Bonds Payable, Net	\$ 78,482,638	\$ 21,533,489	\$ 1,767,107	\$ 98,249,020
		Amount Due Within One Year		\$ 2,165,000
		Amount Due After One Year		96,084,020
		Bonds Payable, Net		\$ 98,249,020

As of March 31, 2018, the Master District has contract revenue bonds outstanding totaling \$100,230,000. The debt service requirements on the outstanding bonds were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 2,165,000	\$ 3,431,213	\$ 5,596,213
2020	2,640,000	3,451,585	6,091,585
2021	2,740,000	3,358,577	6,098,577
2022	2,845,000	3,261,829	6,106,829
2023	2,940,000	3,176,186	6,116,186
2024-2028	16,215,000	14,462,505	30,677,505
2029-2033	19,180,000	11,716,189	30,896,189
2034-2038	23,355,000	7,973,441	31,328,441
2039-2043	28,150,000	3,159,120	31,309,120
	\$ 100,230,000	\$ 53,990,645	\$ 154,220,645

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 14. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the West Harris County Regional Water Authority (the "Authority"). The Authority was created for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. The current fee per 1,000 gallons of surface water purchased from the Authority is \$3.10. During the current fiscal year, the Master District paid \$724,056 for surface water.

NOTE 15. LEASE AGREEMENTS

On November 1, 2012, the Master District entered into a 60-month Lease Agreement with Purchase Option with Gaylord Investment Company to lease the Interim Wastewater Treatment Plant 0.32 MGD, Phase 2 Expansion. Monthly lease payments are due the first day of each month in the amount of \$4,900 through August 2018, with a final payment of \$140,000 due September 1, 2018. The plant was placed into service July 2013. The District made total lease payments of \$58,800, of which \$34,119 was principal. This lease was paid in full subsequent to year-end. Future lease payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 149,336	\$ 5,364	\$ 154,700

On June 11, 2015, the Master District entered into a 60-month Lease Agreement with Purchase Option with Quadvest Construction, L.P. for the Interim Wastewater Treatment Plant, Phase 3 Expansion. Beginning May 1, 2016, monthly lease payments are due the first day of each month in the amount of \$25,742 through March 2021. The District made total lease payments of \$308,899, of which \$277,809 was principal. Future lease payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 286,259	\$ 22,640	\$ 308,899
2020	294,965	13,934	308,899
2021	303,937	4,962	308,899
	<u>\$ 885,161</u>	<u>\$ 41,536</u>	<u>\$ 926,697</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 15. LEASE AGREEMENTS (Continued)

The following is a summary of transactions regarding leases payable for the year ended March 31, 2018:

Total Capital Leases Payable, April 1, 2017	\$	1,346,425
Less: Principal Paid		<u>311,928</u>
Total Capital Leases Payable, March 31, 2018	\$	<u>1,034,497</u>
Amount Due Within One Year	\$	435,595
Amount Due After One Year		<u>598,902</u>
Total Capital Leases Payable	\$	<u>1,034,497</u>

NOTE 16. MASTER DISTRICT BOND SALES AND PENDING BOND APPLICATION

On December 14, 2017, the District closed on the sale of its \$11,875,000 Series 2017 Contract Revenue Bonds (Water, Sewer and Drainage Facilities). The proceeds of the Bonds were used to finance the costs for the portion of the following: (1) Phase 1G regional detention, (2) Towne Lake Parkway Cove borrow pit construction, (3) Towne Lake Parkway Cove regional detention, (4) water distribution and storm water facilities to serve Greenhouse Road, Segment 3, (5) clean out of storm line north of Tuckerton Road, (6) water distribution, wastewater collection, and stormwater facilities to serve Towne Lake Parkway, Greenhouse to Cypress North Houston, (7) water distribution, wastewater collection, and stormwater facilities to serve Greenhouse Road, Segment 4, (8) water distribution and stormwater facilities to serve Cypress North Houston Road, Section 1, (9) water distribution and stormwater facilities to serve Cypress North Houston Road, Section 2, (10) Phase 1-E regional detention, phase III, (11) water distribution, wastewater collection, and stormwater facilities to serve Greenhouse Road, Segment 5, Phase 1J regional detention, (12) water distribution, wastewater collection, and stormwater facilities to serve Greenhouse Road, Segment 6, and Phase 1L regional detention, (13) water distribution, wastewater collection, and stormwater facilities to serve Cypress North Houston Road, Section 3, (14) regional wastewater treatment plant, phase II expansion lease payments end purchase, (15) regional wastewater treatment phase III expansion lease payments, (16) related engineering, storm water compliance, and interest costs, and (17) retirement of the District Series 2017 BAN. Additional proceeds were used to pay costs related to the issuance of the Bonds.

On February 28, 2018, the District closed on the sale of its \$9,635,000 Series 2018 Contract Revenue Bonds (Road Facilities). The proceeds of the Bonds were used to finance the following: (1) Greenhouse Road Segment 6, North of Cypress North Houston Road, (2) Paving to serve Towne Lake Parkway, Section 2, (3) Towne Lake Parkway Segment Two Bridge, (4) Greenhouse Bridge, (5) Tuckerton Road, Barker Cypress Road to Greenhouse Road, (6) Landscape Improvements in Rights-of-Way, (7) engineering and geotechnical expenses, (8) Greenhouse Road, Phases 1 through 3, and (9) Cypress North Houston, Phases 1 and 2. The District also used the proceeds of the Bonds to pay for costs related to the issuance of the Bonds.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 16. MASTER DISTRICT BOND SALES AND PENDING BOND APPLICATION (Continued)

On March 23, 2018, the District submitted its bond application no. 8 to the Commission in the amount of \$10,500,000 of taxable bonds. The District will use the proceeds to reimburse the Developer for the following projects: (1) Phase, 1G Regional Detention and Earthwork, (2) Phase 1F Regional Detention and Earthwork, (3) Towne Lake Parkway Cove Regional Detention and Earthwork, (4) Phase 1E Clearing and Grubbing to serve Phase 1E, Contract 2 and Phase 1E, Contract 3, (5) Phase 1E Regional Detention and Earthwork, Contracts 1 through 3, (6) Phase 1J Regional Detention bid with Greenhouse Road, Segment 5, (7) water distribution, wastewater collection and stormwater facilities to serve Greenhouse Road, Segment Six, North of Cypress North Houston Road and Phase 1L Regional Detention, (8) water distribution, wastewater collection and stormwater facilities to serve Towne Lake, Section 15, (9) water distribution, wastewater collection and stormwater facilities to serve Towne Lake, Section 13, (10) Land acquisitions for Phases 1D, 1E and 1G Regional Detention, and (11) costs associated with the issuance of the bonds. As of the date of this report, the bond application has not been approved.

NOTE 17. SUBSEQUENT EVENT - PENDING USE OF SURPLUS FUNDS AND CHANGE OF PROJECT SCOPE APPLICATION

Subsequent to year-end, on June 20, 2018, the District submitted an application to the Commission for a change of project scope and use of surplus funds in the amount of \$155,669 for Phase 1G reservoir dredging. As of the date of this report, the application has not been approved.

NOTE 18. USE OF SURPLUS FUNDS APPROVAL

On September 29, 2017, the Commission approved the use of \$1,187,876 in surplus funds for costs associated with the reservoir dredging Phases 1A, 1B, 1C, 1D and 1G to serve Towne Lake.

NOTE 19. NON-POTABLE WATER AGREEMENT

Effective December 1, 2015, the District entered into a Non-Potable Water Agreement with Towne Lake Community Association, Inc. (the "Association"). In accordance with the agreement, the District will provide non-potable water to the Association by allowing the Association to connect its irrigation systems to the District's non-potable water trunklines. In addition to a one-time connection fee of \$5,000, the Association is responsible for paying a monthly base fee of \$2,000 for up to 3,000,000 gallons of non-potable water plus \$0.30 per 1,000 gallons of non-potable water in excess of 3,000,000 gallons. The term of the agreement is one year with automatic renewals thereafter for successive one-year terms, unless terminated.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 20. LAW ENFORCEMENT COST SHARING AGREEMENT

Effective September 2, 2016, the District entered into a Cost Sharing Agreement for Law Enforcement Services (the "Agreement") with Towne Lake Community Association, Inc. (the "Association"). Allocations of security costs to the District and the Association are based on equivalent single-family connections. The Association administers the contract and is responsible for making the monthly payments. Effective March 1, 2017, the agreement was extended for an additional year and a second deputy was added. For the period covering March 1, 2017, to February 28, 2018, the cost of the contract was \$139,674, which is divided into monthly payments. Effective March 1, 2018, the agreement was extended for an additional year. For the period covering March 1, 2018, to February 28, 2019, the anticipated cost of the contract is \$197,612, which is divided into monthly payments.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (INTERNAL DISTRICT ACTIVITIES)
FOR THE YEAR ENDED MARCH 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Maintenance Taxes	\$ 297,920	\$ 154,614	\$ (143,306)
Water Service	150,000	134,936	(15,064)
Wastewater Service	110,000	114,205	4,205
Tap Connection and Inspection Fees		43,615	43,615
Regional Water Authority Fees	110,000	112,469	2,469
Miscellaneous Revenues	2,200	2,473	273
TOTAL REVENUES	\$ 670,120	\$ 562,312	\$ (107,808)
EXPENDITURES			
Professional Fees	\$ 85,000	\$ 78,966	\$ 6,034
Contracted Services	16,800	16,681	119
Purchased Water and Wastewater Service	340,740	340,740	
Repairs and Maintenance	25,000	40,101	(15,101)
Other	31,440	49,728	(18,288)
TOTAL EXPENDITURES	\$ 498,980	\$ 526,216	\$ (27,236)
NET CHANGE IN FUND BALANCE	\$ 171,140	\$ 36,096	\$ (135,044)
FUND BALANCE - APRIL 1, 2017	952,564	952,564	
FUND BALANCE - MARCH 31, 2018	\$ 1,123,704	\$ 988,660	\$ (135,044)

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500

OTHER SUPPLEMENTARY INFORMATION

MARCH 31, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
BUDGET AND ACTUAL – ENTERPRISE FUND (MASTER DISTRICT ACTIVITIES)
FOR THE YEAR ENDED MARCH 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES			
Service Revenues	\$ 1,624,590	\$ 1,578,555	\$ (46,035)
Non-Potable Water Service	36,000	37,165	1,165
Miscellaneous Revenue	<u>1,433</u>	<u>1,433</u>	<u>1,433</u>
TOTAL OPERATING REVENUES	<u>\$ 1,660,590</u>	<u>\$ 1,617,153</u>	<u>\$ (43,437)</u>
OPERATING EXPENSES			
Professional Fees	\$ 285,200	\$ 580,397	\$ (295,197)
Contracted Services	266,600	241,040	25,560
Repair and Maintenance	110,000	494,699	(384,699)
Utilities	121,000	99,335	21,665
Depreciation		2,159,884	(2,159,884)
Other	<u>727,220</u>	<u>837,012</u>	<u>(109,792)</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,510,020</u>	<u>\$ 4,412,367</u>	<u>\$ (2,902,347)</u>
OPERATING INCOME (LOSS)	<u>\$ 150,570</u>	<u>\$ (2,795,214)</u>	<u>\$ (2,945,784)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment Revenues	\$	\$ 65,200	\$ 65,200
Contractual Obligation from Participants		6,032,801	6,032,801
Debt Issuance Costs		(1,645,818)	(1,645,818)
Capital Lease Interest Expense		(55,771)	(55,771)
Bond Interest Expense	<u></u>	<u>(3,138,159)</u>	<u>(3,138,159)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ -0-</u>	<u>\$ 1,258,253</u>	<u>\$ 1,258,253</u>
CHANGE IN NET POSITION	\$ 150,570	\$ (1,536,961)	\$ (1,687,531)
NET POSITION - APRIL 1, 2017	<u>(11,047,363)</u>	<u>(11,047,363)</u>	<u></u>
NET POSITION - MARCH 31, 2018	<u>\$ (10,896,793)</u>	<u>\$ (12,584,324)</u>	<u>\$ (1,687,531)</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

MARCH 31, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2018

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

<u> X </u>	Retail Water	<u> (1) </u>	Wholesale Water	<u> X </u>	Drainage
<u> X </u>	Retail Wastewater	<u> (1) </u>	Wholesale Wastewater	<u> X </u>	Irrigation
<u> X </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> </u>	Security
<u> </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> X </u>	Roads
<u> X </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify): _____				

(1) The Master District provides wholesale water and wastewater to the participants. See Note 13.

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved May 4, 2016.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 22.00	7,000	N	\$ 2.25 \$ 2.50 \$ 3.00	7,001 to 15,000 15,001 to 25,000 25,001 and up
WASTEWATER:	\$ 30.00		Y		

SURCHARGE:

Commission
 Regulatory Assessments
 Surface Water Fees*

Included in the rates above

District employs winter averaging for wastewater usage?

 X
 Yes No

Total monthly charges per 10,000 gallons usage: Water: \$28.75 Wastewater: \$30.00 Surcharge: \$34.10*

* Equal to the surface water fee charged by the West Harris County Regional Water Authority plus 10%

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2018

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	2	2	x 1.0	2
1"	4	4	x 2.5	10
1½"	6	6	x 5.0	30
2"	15	15	x 8.0	120
3"	4	4	x 15.0	60
4"	3	3	x 25.0	75
6"	7	7	x 50.0	350
8"	3	3	x 80.0	240
10"			x 115.0	
Total Water Connections	<u>44</u>	<u>44</u>		<u>887</u>
Total Wastewater Connections	<u>20</u>	<u>20</u>	x 1.0	<u>20</u>

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

Water Accountability Ratio: 100%
(Gallons billed and sold/Gallons pumped and purchased)

Gallons billed/sold:	263,445,000	Includes water provided to Districts 500, 501 and 502
Gallons Purchased	263,445,000	From: West Harris County Regional Water Authority

Note: Harris County Municipal Utility District No. 500 Internal District, along with Harris County Municipal Utility District No. 501 and Harris County Municipal Utility District No. 502, receives water from the Harris County Municipal Utility District No. 500 Master District.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2018

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

Does the District have Debt Service standby fees? Yes No

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

5. **LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is located

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
GENERAL FUND EXPENDITURES (INTERNAL DISTRICT ACTIVITIES)
FOR THE YEAR ENDED MARCH 31, 2018

PROFESSIONAL FEES	
Legal	\$ 64,622
Auditing	10,200
Engineering	<u>4,144</u>
TOTAL PROFESSIONAL FEES	<u>\$ 78,966</u>
 PURCHASED SERVICES FOR RESALE	
Purchased Water and Wastewater Service	<u>\$ 340,740</u>
 CONTRACTED SERVICES	
Bookkeeping	\$ 9,650
Operations and Billing	<u>7,031</u>
TOTAL CONTRACTED SERVICES	<u>\$ 16,681</u>
 REPAIRS AND MAINTENANCE	<u>\$ 40,101</u>
 ADMINISTRATIVE EXPENDITURES	
Director Fees	\$ 5,400
Insurance	7,479
Legal Notices	199
Office Supplies and Postage	4,168
Payroll Taxes and Administration	413
Travel and Meetings	1,201
Other	<u>7,427</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 26,287</u>
 TAP CONNECTION EXPENDITURES	<u>\$ 16,100</u>
 OTHER EXPENDITURES	
Laboratory Fees	\$ 4,234
Permit Fees	897
Regulatory Assessment	1,349
Sewer Inspection Fees	<u>861</u>
TOTAL OTHER EXPENDITURES	<u>\$ 7,341</u>
 TOTAL EXPENDITURES	<u>\$ 526,216</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
INVESTMENTS (MASTER DISTRICT ACTIVITIES)
MARCH 31, 2018

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable At End of Year
<u>ENTERPRISE FUND</u>					
Money Market Mutual Fund	XXXX0811	Varies	Daily	\$ 4,184,975	\$
Money Market Mutual Fund	XXXX0812	Varies	Daily	2,202,100	
Money Market Mutual Fund	XXXX5059	Varies	Daily	1,006,126	
Money Market Mutual Fund	XXXX5058	Varies	Daily	<u>1,493,847</u>	
TOTAL INVESTMENTS				<u>\$ 8,887,048</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
TAXES LEVIED AND RECEIVABLE (INTERNAL DISTRICT ACTIVITIES)
FOR THE YEAR ENDED MARCH 31, 2018

	Maintenance Taxes		Contract Taxes		Debt Service Taxes	
TAXES RECEIVABLE - APRIL 1, 2017	\$	5,471	\$	18,520	\$	-0-
Adjustments to Beginning Balance	<u>(2,031)</u>	\$ 3,440	<u>(6,869)</u>	\$ 11,651	<u> </u>	\$ -0-
Original 2017 Tax Levy	\$	145,461	\$	1,090,955	\$	134,271
Adjustment to 2017 Tax Levy	<u>7,266</u>	<u>152,727</u>	<u>54,501</u>	<u>1,145,456</u>	<u>6,708</u>	<u>140,979</u>
TOTAL TO BE ACCOUNTED FOR		\$ 156,167		\$ 1,157,107		\$ 140,979
TAX COLLECTIONS:						
Prior Years	\$	3,431	\$	11,626	\$	
Current Year	<u>151,183</u>	<u>154,614</u>	<u>1,133,875</u>	<u>1,145,501</u>	<u>139,554</u>	<u>139,554</u>
TAXES RECEIVABLE - MARCH 31, 2018		<u>\$ 1,553</u>		<u>\$ 11,606</u>		<u>\$ 1,425</u>
TAXES RECEIVABLE BY YEAR:						
2017		\$ 1,544		\$ 11,581		\$ 1,425
2016		4		13		
2015		<u>5</u>		<u>12</u>		
TOTAL		<u>\$ 1,553</u>		<u>\$ 11,606</u>		<u>\$ 1,425</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
TAXES LEVIED AND RECEIVABLE (INTERNAL DISTRICT ACTIVITIES)
FOR THE YEAR ENDED MARCH 31, 2018

	2017	2016	2015	2014
PROPERTY VALUATIONS:				
Land	\$ 23,368,191	\$ 22,918,956	\$ 21,003,103	\$ 17,420,411
Improvements	85,113,519	77,917,095	61,286,758	40,275,928
Personal Property	11,664,987	10,970,981	8,207,739	580,823
Exemptions	(2,664,008)	(1,674,101)	(207,609)	(253,665)
TOTAL PROPERTY VALUATIONS	\$ 117,482,689	\$ 110,132,931	\$ 90,289,991	\$ 58,023,497
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.120	\$ 0.000	\$ 0.00	\$ 0.00
Road***	0.000	0.000	0.00	0.00
Contract	0.975	0.965	0.88	0.61
Maintenance**	0.130	0.285	0.37	0.64
TOTAL TAX RATES PER \$100 VALUATION	\$ 1.225	\$ 1.25	\$ 1.25	\$ 1.25
ADJUSTED TAX LEVY*	\$ 1,439,162	\$ 1,376,662	\$ 1,128,625	\$ 725,295
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	98.99 %	99.99 %	99.99 %	100.00 %

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

** Maintenance Tax – A maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on November 6, 2007.

*** Road Maintenance Tax – A maximum tax rate of \$0.25 per \$100 of assessed valuation approved by voters on November 4, 2008.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2010
WATER, SEWER AND DRAINAGE FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$ 170,000	\$ 55,855	\$ 225,855
2020	180,000	45,655	225,655
2021	190,000	34,855	224,855
2022	200,000	23,455	223,455
2023	215,000	12,255	227,255
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
	<u>\$ 955,000</u>	<u>\$ 172,075</u>	<u>\$ 1,127,075</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2012
WATER, SEWER AND DRAINAGE FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$ 130,000	\$ 172,112	\$ 302,112
2020	135,000	168,863	303,863
2021	140,000	165,150	305,150
2022	145,000	160,950	305,950
2023	150,000	156,310	306,310
2024	160,000	151,285	311,285
2025	165,000	145,685	310,685
2026	170,000	139,745	309,745
2027	180,000	133,582	313,582
2028	185,000	127,013	312,013
2029	195,000	120,075	315,075
2030	205,000	112,519	317,519
2031	210,000	104,575	314,575
2032	220,000	96,175	316,175
2033	230,000	87,375	317,375
2034	240,000	78,175	318,175
2035	250,000	68,575	318,575
2036	260,000	58,575	318,575
2037	270,000	47,850	317,850
2038	285,000	36,712	321,712
2039	295,000	24,956	319,956
2040	310,000	12,788	322,788
2041			
2042			
2043			
	<u>\$ 4,530,000</u>	<u>\$ 2,369,045</u>	<u>\$ 6,899,045</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2013
WATER, SEWER AND DRAINAGE FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$ 180,000	\$ 347,795	\$ 527,795
2020	185,000	342,215	527,215
2021	195,000	336,481	531,481
2022	205,000	330,142	535,142
2023	220,000	323,480	543,480
2024	230,000	315,780	545,780
2025	240,000	306,580	546,580
2026	255,000	296,980	551,980
2027	265,000	286,142	551,142
2028	280,000	274,880	554,880
2029	295,000	262,560	557,560
2030	310,000	249,580	559,580
2031	330,000	235,010	565,010
2032	345,000	219,500	564,500
2033	365,000	202,250	567,250
2034	380,000	184,000	564,000
2035	400,000	165,000	565,000
2036	425,000	145,000	570,000
2037	445,000	123,750	568,750
2038	470,000	101,500	571,500
2039	495,000	78,000	573,000
2040	520,000	53,250	573,250
2041	545,000	27,250	572,250
2042			
2043			
	<u>\$ 7,580,000</u>	<u>\$ 5,207,125</u>	<u>\$ 12,787,125</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2014
WATER, SEWER AND DRAINAGE FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$ 145,000	\$ 193,105	\$ 338,105
2020	155,000	188,755	343,755
2021	160,000	184,105	344,105
2022	165,000	180,265	345,265
2023	175,000	175,975	350,975
2024	185,000	171,075	356,075
2025	190,000	165,525	355,525
2026	200,000	159,635	359,635
2027	210,000	153,235	363,235
2028	220,000	146,305	366,305
2029	230,000	138,825	368,825
2030	240,000	130,775	370,775
2031	250,000	121,775	371,775
2032	260,000	112,400	372,400
2033	270,000	102,000	372,000
2034	285,000	91,200	376,200
2035	295,000	79,800	374,800
2036	310,000	68,000	378,000
2037	325,000	55,600	380,600
2038	340,000	42,600	382,600
2039	355,000	29,000	384,000
2040	370,000	14,800	384,800
2041			
2042			
2043			
	<u>\$ 5,335,000</u>	<u>\$ 2,704,755</u>	<u>\$ 8,039,755</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2015
ROAD FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$ 295,000	\$ 375,234	\$ 670,234
2020	305,000	366,384	671,384
2021	320,000	359,674	679,674
2022	330,000	352,154	682,154
2023	345,000	343,904	688,904
2024	360,000	334,415	694,415
2025	375,000	323,616	698,616
2026	390,000	311,616	701,616
2027	410,000	298,356	708,356
2028	425,000	284,006	709,006
2029	445,000	269,132	714,132
2030	465,000	253,000	718,000
2031	480,000	234,400	714,400
2032	505,000	215,200	720,200
2033	525,000	195,000	720,000
2034	545,000	174,000	719,000
2035	570,000	152,200	722,200
2036	595,000	129,400	724,400
2037	620,000	105,600	725,600
2038	645,000	80,800	725,800
2039	675,000	55,000	730,000
2040	700,000	28,000	728,000
2041			
2042			
2043			
	<u>\$ 10,325,000</u>	<u>\$ 5,241,091</u>	<u>\$ 15,566,091</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2015
WATER, SEWER AND DRAINAGE FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$ 365,000	\$ 538,106	\$ 903,106
2020	385,000	523,506	908,506
2021	400,000	508,106	908,106
2022	425,000	492,106	917,106
2023	445,000	483,606	928,606
2024	470,000	470,256	940,256
2025	495,000	456,156	951,156
2026	520,000	445,019	965,019
2027	545,000	432,019	977,019
2028	575,000	415,669	990,669
2029	605,000	398,419	1,003,419
2030	640,000	380,269	1,020,269
2031	670,000	360,269	1,030,269
2032	705,000	338,494	1,043,494
2033	745,000	313,819	1,058,819
2034	785,000	287,744	1,072,744
2035	825,000	260,268	1,085,268
2036	865,000	230,363	1,095,363
2037	910,000	197,925	1,107,925
2038	960,000	163,800	1,123,800
2039	1,010,000	127,800	1,137,800
2040	1,065,000	87,400	1,152,400
2041	1,120,000	44,800	1,164,800
2042			
2043			
	<u>\$ 15,530,000</u>	<u>\$ 7,955,919</u>	<u>\$ 23,485,919</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2016 TAXABLE
WATER, SEWER AND DRAINAGE FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$ 300,000	\$ 562,437	\$ 862,437
2020	315,000	550,438	865,438
2021	335,000	537,837	872,837
2022	360,000	524,438	884,438
2023	380,000	513,637	893,637
2024	405,000	502,238	907,238
2025	430,000	490,087	920,087
2026	455,000	477,188	932,188
2027	485,000	463,537	948,537
2028	515,000	448,988	963,988
2029	545,000	433,537	978,537
2030	580,000	417,188	997,188
2031	620,000	399,062	1,019,062
2032	655,000	378,913	1,033,913
2033	695,000	355,987	1,050,987
2034	740,000	331,663	1,071,663
2035	785,000	305,762	1,090,762
2036	835,000	276,325	1,111,325
2037	890,000	245,012	1,135,012
2038	945,000	211,638	1,156,638
2039	1,005,000	176,200	1,181,200
2040	1,065,000	136,000	1,201,000
2041	1,130,000	93,400	1,223,400
2042	1,205,000	48,200	1,253,200
2043			
	<u>\$ 15,675,000</u>	<u>\$ 8,879,712</u>	<u>\$ 24,554,712</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2016
ROAD FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$ 300,000	\$ 334,325	\$ 634,325
2020	315,000	322,325	637,325
2021	330,000	309,725	639,725
2022	340,000	299,825	639,825
2023	355,000	293,025	648,025
2024	370,000	285,925	655,925
2025	390,000	278,525	668,525
2026	405,000	270,725	675,725
2027	420,000	262,625	682,625
2028	440,000	254,225	694,225
2029	460,000	245,425	705,425
2030	475,000	235,075	710,075
2031	495,000	223,200	718,200
2032	520,000	210,825	730,825
2033	540,000	197,825	737,825
2034	565,000	182,975	747,975
2035	590,000	166,025	756,025
2036	615,000	148,325	763,325
2037	640,000	129,875	769,875
2038	665,000	110,675	775,675
2039	695,000	90,725	785,725
2040	725,000	69,875	794,875
2041	755,000	48,125	803,125
2042	785,000	24,531	809,531
2043			
	<u>\$ 12,190,000</u>	<u>\$ 4,994,731</u>	<u>\$ 17,184,731</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2017 REFUNDING
WATER, SEWER AND DRAINAGE FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$ 90,000	\$ 215,494	\$ 305,494
2020	90,000	213,694	303,694
2021	95,000	211,894	306,894
2022	95,000	209,994	304,994
2023	95,000	208,094	303,094
2024	330,000	205,956	535,956
2025	335,000	197,706	532,706
2026	345,000	188,494	533,494
2027	360,000	179,006	539,006
2028	365,000	168,205	533,205
2029	380,000	157,256	537,256
2030	390,000	145,381	535,381
2031	405,000	132,706	537,706
2032	415,000	119,544	534,544
2033	430,000	105,019	535,019
2034	445,000	89,969	534,969
2035	460,000	73,838	533,838
2036	475,000	56,587	531,587
2037	490,000	38,775	528,775
2038	510,000	20,400	530,400
2039			
2040			
2041			
2042			
2043			
	<u>\$ 6,600,000</u>	<u>\$ 2,938,012</u>	<u>\$ 9,538,012</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2017
WATER, SEWER AND DRAINAGE FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$ 190,000	\$ 377,357	\$ 567,357
2020	325,000	387,694	712,694
2021	325,000	381,194	706,194
2022	320,000	371,444	691,444
2023	300,000	361,844	661,844
2024	270,000	352,844	622,844
2025	265,000	344,744	609,744
2026	240,000	336,794	576,794
2027	215,000	329,594	544,594
2028	195,000	323,144	518,144
2029	165,000	317,294	482,294
2030	135,000	312,344	447,344
2031	105,000	308,294	413,294
2032	80,000	305,144	385,144
2033	50,000	302,744	352,744
2034	15,000	301,244	316,244
2035		300,794	300,794
2036		300,794	300,794
2037		300,794	300,794
2038		300,794	300,794
2039	355,000	300,794	655,794
2040	335,000	289,256	624,256
2041	1,025,000	278,369	1,303,369
2042	2,785,000	243,775	3,028,775
2043	4,180,000	146,300	4,326,300
	<u>\$ 11,875,000</u>	<u>\$ 7,875,387</u>	<u>\$ 19,750,387</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2018
ROAD FACILITIES

Due During Fiscal Years Ending March 31	Principal Due December 1	Interest Due June 1/ December 1	Total
2019	\$	\$ 259,393	\$ 259,393
2020	250,000	342,056	592,056
2021	250,000	329,556	579,556
2022	260,000	317,056	577,056
2023	260,000	304,056	564,056
2024	260,000	291,056	551,056
2025	255,000	278,056	533,056
2026	255,000	270,406	525,406
2027	255,000	262,756	517,756
2028	255,000	255,106	510,106
2029	255,000	247,456	502,456
2030	255,000	239,806	494,806
2031	265,000	232,156	497,156
2032	260,000	224,206	484,206
2033	265,000	216,406	481,406
2034	270,000	208,126	478,126
2035	275,000	199,688	474,688
2036	275,000	190,750	465,750
2037	280,000	181,814	461,814
2038	290,000	172,362	462,362
2039	290,000	162,576	452,576
2040	300,000	152,425	452,425
2041	1,035,000	141,925	1,176,925
2042	1,080,000	105,700	1,185,700
2043	1,940,000	67,900	2,007,900
	<u>\$ 9,635,000</u>	<u>\$ 5,652,793</u>	<u>\$ 15,287,793</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
MASTER DISTRICT ACTIVITIES
MARCH 31, 2018

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 2,165,000	\$ 3,431,213	\$ 5,596,213
2020	2,640,000	3,451,585	6,091,585
2021	2,740,000	3,358,577	6,098,577
2022	2,845,000	3,261,829	6,106,829
2023	2,940,000	3,176,186	6,116,186
2024	3,040,000	3,080,830	6,120,830
2025	3,140,000	2,986,680	6,126,680
2026	3,235,000	2,896,602	6,131,602
2027	3,345,000	2,800,852	6,145,852
2028	3,455,000	2,697,541	6,152,541
2029	3,575,000	2,589,979	6,164,979
2030	3,695,000	2,475,937	6,170,937
2031	3,830,000	2,351,447	6,181,447
2032	3,965,000	2,220,401	6,185,401
2033	4,115,000	2,078,425	6,193,425
2034	4,270,000	1,929,096	6,199,096
2035	4,450,000	1,771,950	6,221,950
2036	4,655,000	1,604,119	6,259,119
2037	4,870,000	1,426,995	6,296,995
2038	5,110,000	1,241,281	6,351,281
2039	5,175,000	1,045,051	6,220,051
2040	5,390,000	843,794	6,233,794
2041	5,610,000	633,869	6,243,869
2042	5,855,000	422,206	6,277,206
2043	6,120,000	214,200	6,334,200
	<u>\$ 100,230,000</u>	<u>\$ 53,990,645</u>	<u>\$ 154,220,645</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
LONG-TERM DEBT SERVICE REQUIREMENTS
INTERNAL DISTRICT ACTIVITIES
MARCH 31, 2018

SERIES - 2017
WATER, SEWER AND DRAINAGE FACILITIES

Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 40,000	\$ 74,728	\$ 114,728
2020	45,000	73,452	118,452
2021	45,000	72,103	117,103
2022	50,000	70,678	120,678
2023	50,000	69,177	119,177
2024	55,000	67,603	122,603
2025	55,000	65,911	120,911
2026	60,000	64,055	124,055
2027	60,000	62,045	122,045
2028	65,000	59,888	124,888
2029	70,000	57,490	127,490
2030	70,000	54,935	124,935
2031	75,000	52,215	127,215
2032	80,000	49,190	129,190
2033	85,000	45,890	130,890
2034	90,000	42,390	132,390
2035	90,000	38,790	128,790
2036	95,000	35,090	130,090
2037	100,000	31,190	131,190
2038	105,000	27,090	132,090
2039	110,000	22,790	132,790
2040	115,000	18,290	133,290
2041	125,000	13,427	138,427
2042	130,000	8,200	138,200
2043	135,000	2,767	137,767
	<u>\$ 2,000,000</u>	<u>\$ 1,179,384</u>	<u>\$ 3,179,384</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
CHANGES IN LONG-TERM BOND DEBT - MASTER DISTRICT ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2018

Description	Original Bonds Issued	Bonds Outstanding April 1, 2017
Harris County Municipal Utility District No. 500 Contract Revenue Bonds (Water, Sewer and Drainage Facilities) - Series 2010	\$ 7,075,000	\$ 1,115,000
Harris County Municipal Utility District No. 500 Contract Revenue Bonds (Water, Sewer and Drainage Facilities) - Series 2012	5,000,000	4,655,000
Harris County Municipal Utility District No. 500 Contract Revenue Bonds (Water, Sewer and Drainage Facilities) - Series 2013	8,060,000	7,750,000
Harris County Municipal Utility District No. 500 Contract Revenue Bonds (Water, Sewer and Drainage Facilities) - Series 2014	5,610,000	5,475,000
Harris County Municipal Utility District No. 500 Contract Revenue Bonds (Road Facilities) - Series 2015	10,875,000	10,605,000
Harris County Municipal Utility District No. 500 Contract Revenue Bonds (Water, Sewer and Drainage Facilities) - Series 2015	15,875,000	15,875,000
Harris County Municipal Utility District No. 500 Taxable Contract Revenue Bonds (Water, Sewer and Drainage Facilities) - Series 2016	15,955,000	15,955,000
Harris County Municipal Utility District No. 500 Contract Revenue Bonds (Road Facilities) - Series 2016	12,440,000	12,440,000
Harris County Municipal Utility District No. 500 Contract Revenue Refunding Bonds (Water, Sewer and Drainage Facilities) - Series 2017	6,710,000	6,710,000
Harris County Municipal Utility District No. 500 Contract Revenue Bonds (Water, Sewer and Drainage Facilities) - Series 2017	11,875,000	
Harris County Municipal Utility District No. 500 Contract Revenue Bonds (Road Facilities) - Series 2018	<u>9,635,000</u>	
TOTAL	<u>\$ 109,110,000</u>	<u>\$ 80,580,000</u>

See accompanying independent auditor's report.

Current Year Transactions				Bonds Outstanding March 31, 2018	Paying Agent
Bonds Sold	Retirements				
	Principal	Interest			
\$	\$ 160,000	\$ 65,455	\$ 955,000		The Bank of New York Mellon Trust Company, N.A.
	125,000	174,925	4,530,000		The Bank of New York Mellon Trust Company, N.A.
	170,000	353,065	7,580,000		The Bank of New York Mellon Trust Company, N.A.
	140,000	197,305	5,335,000		The Bank of New York Mellon Trust Company, N.A.
	280,000	383,634	10,325,000		The Bank of New York Mellon Trust Company, N.A.
	345,000	551,906	15,530,000		The Bank of New York Mellon Trust Company, N.A.
	280,000	576,438	15,675,000		The Bank of New York Mellon Trust Company, N.A.
	250,000	371,106	12,190,000		The Bank of New York Mellon Trust Company, N.A.
	110,000	192,901	6,600,000		The Bank of New York Mellon Trust Company, N.A.
11,875,000			11,875,000		The Bank of New York Mellon Trust Company, N.A.
<u>9,635,000</u>			<u>9,635,000</u>		The Bank of New York Mellon Trust Company, N.A.
<u>\$ 21,510,000</u>	<u>\$ 1,860,000</u>	<u>\$ 2,866,735</u>	<u>\$ 100,230,000</u>		

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
CHANGES IN LONG-TERM BOND DEBT - MASTER DISTRICT ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2018

Master District Contract Revenue Bond Authority:	<u>Water/Sewer/ Drainage Bonds</u>	<u>Road Bonds</u>	<u>Parks and Recreational Bonds</u>
Amount Authorized by Voters	\$ 754,660,000	\$ 350,600,000	\$ 64,550,000
Amount Issued	<u>70,745,000</u>	<u>32,950,000</u>	<u> </u>
Remaining to be Issued	<u>\$ 683,915,000</u>	<u>\$ 317,650,000</u>	<u>\$ 64,550,000</u>
 Cash and investments restricted for Master District debt as of March 31, 2018:			 <u>\$ 8,887,048</u>
 Average annual debt service payment (principal and interest) for remaining term of all debt:			 <u>\$ 6,168,826</u>

See Note 13 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
CHANGES IN LONG-TERM BOND DEBT
INTERNAL DISTRICT ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2018

Description	Original Bonds Issued	Bonds Outstanding April 1, 2017	
Harris County Municipal Utility District No. 500 Unlimited Tax Bonds (Water, Sewer and Drainage Facilities) - Series 2017	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	
Internal District Unlimited Tax Bond Authority:	Water/Sewer/ Drainage Bonds	Road Bonds	Parks and Recreational Bonds
Amount Authorized by Voters	\$ 31,250,000	\$ 14,230,000	\$ 20,000,000
Amount Issued	<u>2,000,000</u>		
Remaining to be Issued	<u>\$ 29,250,000</u>	<u>\$ 14,230,000</u>	<u>\$ 20,000,000</u>
Cash and investments restricted for District debt as of March 31, 2018:			<u>\$ 886,198</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:			<u>\$ 127,175</u>

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
	<u>Retirements</u>		<u>Bonds Outstanding March 31, 2018</u>	<u>Paying Agent</u>
<u>Bonds Sold</u>	<u>Principal</u>	<u>Interest</u>		
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 79,931</u>	<u>\$ 2,000,000</u>	The Bank of New York Mellon Trust Company, N.A.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND (INTERNAL DISTRICT ACTIVITIES)

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 154,614	\$ 313,716	\$ 323,418
Water Service	134,936	139,556	114,984
Wastewater Service	114,205	100,217	87,640
Penalty and Interest	1,054	4,665	3,424
Tap Connection and Inspection Fees	43,615	50,810	43,380
Regional Water Authority Fees	112,469	87,102	60,888
Miscellaneous Revenues	1,419	878	801
TOTAL REVENUES	\$ 562,312	\$ 696,944	\$ 634,535
EXPENDITURES			
Professional Fees	\$ 78,966	\$ 87,308	\$ 86,459
Contracted Services	16,681	29,250	24,254
Purchased Water and Wastewater Services	340,740	372,850	439,980
Repairs and Maintenance	40,101	61,039	15,413
Other	49,728	57,156	101,214
TOTAL EXPENDITURES	\$ 526,216	\$ 607,603	\$ 667,320
NET CHANGE IN FUND BALANCE	\$ 36,096	\$ 89,341	\$ (32,785)
BEGINNING FUND BALANCE	952,564	863,223	896,008
ENDING FUND BALANCE	\$ 988,660	\$ 952,564	\$ 863,223

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 370,330	\$ 167,406	27.4 %	45.0 %	51.1 %	37.4 %	24.0 %
98,393	59,693	24.0	20.0	18.1	10.0	8.6
79,199	71,051	20.3	14.4	13.8	8.0	10.2
2,081	3,808	0.2	0.7	0.5	0.2	0.5
399,510	364,767	7.8	7.3	6.8	40.4	52.6
38,385	26,856	20.0	12.5	9.6	3.9	3.9
805	395	0.3	0.1	0.1	0.1	0.2
<u>\$ 988,703</u>	<u>\$ 693,976</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 103,343	\$ 64,578	14.0 %	12.5 %	13.6 %	10.5 %	9.3 %
21,701	17,849	3.0	4.2	3.8	2.2	2.6
398,220	176,650	60.6	53.5	69.3	40.3	25.5
9,283	3,681	7.1	8.8	2.4	0.9	0.5
254,362	148,362	8.8	8.2	16.0	25.7	21.4
<u>\$ 786,909</u>	<u>\$ 411,120</u>	<u>93.5 %</u>	<u>87.2 %</u>	<u>105.1 %</u>	<u>79.6 %</u>	<u>59.3 %</u>
\$ 201,794	\$ 282,856	6.5 %	12.8 %	(5.1) %	20.4 %	40.7 %
694,214	411,358					
<u>\$ 896,008</u>	<u>\$ 694,214</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE/CONTRACT TAX FUND (INTERNAL DISTRICT ACTIVITIES)

	Amounts		
	2018	2017	2016
REVENUES			
Property/Contract Tax Revenues	\$ 1,285,055	\$ 1,056,887	\$ 767,486
Penalty and Interest	3,103		
Miscellaneous Revenues	<u>1,516</u>	<u>549</u>	<u>218</u>
TOTAL REVENUES	<u>\$ 1,289,674</u>	<u>\$ 1,057,436</u>	<u>\$ 767,704</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 22,232	\$ 976	\$ 216
Debt Service Interest and Fees	79,931		
Contractual Obligation	<u>1,003,148</u>	<u>829,140</u>	<u>536,352</u>
TOTAL EXPENDITURES	<u>\$ 1,105,311</u>	<u>\$ 830,116</u>	<u>\$ 536,568</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 184,363</u>	<u>\$ 227,320</u>	<u>\$ 231,136</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	<u>\$ - 0 -</u>	<u>\$ 155,647</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 184,363	\$ 382,967	\$ 231,136
BEGINNING FUND BALANCE	<u>797,956</u>	<u>414,989</u>	<u>183,853</u>
ENDING FUND BALANCE	<u>\$ 982,319</u>	<u>\$ 797,956</u>	<u>\$ 414,989</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>44</u>	<u>45</u>	<u>36</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>20</u>	<u>27</u>	<u>15</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 353,004	\$ 398,154	99.7 %	99.9 %	100.0 %	99.9 %	100.0 %
242	184	0.2				
<u>353,246</u>	<u>398,338</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 165	\$ 70	1.7 %	0.1 %	%	%	%
375,899	327,268	6.2				
<u>376,064</u>	<u>327,338</u>	<u>85.7 %</u>	<u>78.5 %</u>	<u>69.9 %</u>	<u>106.4 %</u>	<u>82.2 %</u>
\$ (22,818)	\$ 71,000	14.3 %	21.5 %	30.1 %	(6.4) %	17.8 %
\$ - 0 -	\$ - 0 -					
\$ (22,818)	\$ 71,000					
206,671	135,671					
<u>\$ 183,853</u>	<u>\$ 206,671</u>					
<u>30</u>	<u>6</u>					
<u>22</u>	<u>3</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2018

District Mailing Address - Harris County Municipal Utility District No. 500
c/o Allen Boone Humphries Robinson LLP
3200 Southwest Freeway, Suite 2600
Houston, TX 77027

District Telephone Number - (713) 860-6400

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended March 31, 2018		Expense Reimbursements for the year ended March 31, 2018		Title
		Internal	Master	Internal	Master	
Colette Garcia	05/16 - 05/20 (Elected)	\$1,500	\$1,200	\$ 36	\$ 48	President
Marilyn Roberts	05/14 - 05/18 (Elected)	\$1,950	\$1,050	\$ 66	\$ 77	Vice President
Pamela Bretherton	01/15 - 05/18 (Appointed)	\$ 675	\$ 975	\$ 147	\$ 207	Assistant Vice President
Saundra Dahlke	05/14 - 05/18 (Elected)	\$ 975	\$ 975	\$ 11	\$ 13	Secretary
Robert M. Condon	05/16 - 05/20 (Elected)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	Assistant Secretary

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

The submission date of the most recent District Registration Form was (TWC Sections 36.054 and 49.054): July 10, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on August 27, 2007. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 500
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2018

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2018 Internal</u>	<u>Fees for the year ended March 31, 2018 Master</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	08/27/07	\$ 65,034 \$ -0-	\$ 317,145 \$ 511,537	General Counsel/ Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	02/03/10	\$ 10,200 \$ -0-	\$ 15,800 \$ 35,750	Audit Related AUP/Bond Related
F. Matuska, Inc.	10/03/07	\$ 10,347	\$ 12,261	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP	03/05/08	\$ 136	\$ -0-	Delinquent Tax Attorney
Edminster, Hinshaw, Russ and Associates, Inc.	10/03/07	\$ 4,144	\$ 370,977	Engineer
RBC Capital Markets	10/03/07	\$ 2,250	\$ 247,663	Financial Advisor
Fran Matuska	10/03/07	\$ -0-	\$ -0-	Investment Officer
Environmental Development Partners	07/02/08	\$ 76,906	\$ 263,312	Operator
Bob Leared Interests, Inc.	10/03/07	\$ 10,085	\$ 6,000	Tax Assessor/ Collector

See accompanying independent auditor's report.

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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July 10, 2018

Board of Directors
Harris County Municipal
Utility District No. 500
Harris County, Texas

In planning and performing our audit of the financial statements of Harris County Municipal Utility District No. 500 (the "District") as of and for the year ended March 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the District's financial statements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weaknesses

Last year, and again this year, we observed the following matters that we consider to be material weaknesses.

The District's management consists of an elected Board of Directors ("Directors"). Day-to-day operations are performed by private companies ("Consultants") under contract with the District. The Directors of the District supervise the performance of the Consultants; however, although the Consultants can be part of the District's system of internal control, the Consultants are not members of management. Ultimately, the Directors are responsible for design and implementation of the system of internal control.

As is common within the system of internal control of most small organizations, the accounting function of the District does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness of the District's system of internal control over financial reporting.

Material Weaknesses (Continued)

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements on the government-wide basis of accounting. Management's reliance upon the auditor to detect and make these necessary adjustments is considered to be a material weakness in internal control. In addition, the District's Management relies on the District's auditor to prepare the capital asset and depreciation schedules and post adjustments related to the presentation of the capital assets in the government-wide financial statements. This reliance on the auditor to perform this function is considered to be a material weakness in the system of internal control. Auditing standards do not make exceptions for reporting deficiencies that are adequately mitigated with nonaudit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

We agree with the objective of auditing standards to inform an organization of all the conditions in its internal control that interfere with its ability to record financial data reliably and issue financial statements free of material misstatement. Communication of the material weaknesses above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor.

Management's Response

The financial statements have been prepared in a manner that is consistent with prior years. The Board engages a bonded bookkeeper who possesses industry knowledge and expertise, including a concentration in special districts accounting. The Board also engages a financial advisor and tax assessor/collector who possess industry knowledge and expertise, as well as legal and professional engineering services. The Board has consulted with its independent auditor concerning this "management letter" and the auditor does not recommend any change in the Board's bookkeeping or audit procedures at this time. To the best of its knowledge, the Board conducts the District's business affairs in the same manner as other similarly situated special districts, and, based on the recommendations of its auditor, does not believe that the addition of an employee to oversee the monthly and annual financial reporting process or to prepare financial statements or that undertaking an additional annual audit is necessary or cost effective.

Conclusion

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Directors and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501

The Continuing Disclosure Annual Report filed on July 31, 2018, is being amended and replaced to reflect an additional notation on page 48 of the General Purpose Financial Statements included as Exhibit B.

EXHIBIT B

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2018

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2018

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McCALL GIBSON SWEDLUND BARFOOT PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 501
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 501 (the "District"), as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Harris County Municipal
Utility District No. 501

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 March 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

July 11, 2018

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

Management's discussion and analysis of Harris County Municipal Utility District No. 501's (the "District") financial performance provides an overview of the District's financial activities for the year ended March 31, 2018. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing contractual debt and bond debt. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$4,937,333 as of March 31, 2018. A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 13,965,179	\$ 15,504,592	\$ (1,539,413)
Capital Assets (Net of Accumulated Depreciation)	15,844,670	15,988,930	(144,260)
Total Assets	\$ 29,809,849	\$ 31,493,522	\$ (1,683,673)
Due to Developer	\$	\$ 2,100,230	\$ 2,100,230
Bonds Payable	24,530,376	24,990,509	460,133
Other Liabilities	342,140	342,192	52
Total Liabilities	\$ 24,872,516	\$ 27,432,931	\$ 2,560,415
Net Position:			
Net Investment in Capital Assets	\$ (4,498,794)	\$ (4,567,163)	\$ 68,369
Restricted	5,864,847	5,389,238	475,609
Unrestricted	3,571,280	3,238,516	332,764
Total Net Position	\$ 4,937,333	\$ 4,060,591	\$ 876,742

The following table provides a summary of the District's operations for the years ended March 31, 2018, and March 31, 2017.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 6,216,653	\$ 6,579,283	\$ (362,630)
Charges for Services	1,667,414	1,496,680	170,734
Other Revenues	96,327	11,864	84,463
Total Revenues	\$ 7,980,394	\$ 8,087,827	\$ (107,433)
Expenses for Services	7,103,652	6,740,255	(363,397)
Change in Net Position	\$ 876,742	\$ 1,347,572	\$ (470,830)
Net Position, Beginning of Year	4,060,591	2,713,019	1,347,572
Net Position, End of Year	\$ 4,937,333	\$ 4,060,591	\$ 876,742

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2018, were \$13,433,252, a decrease of \$1,517,094 from the prior year.

The General Fund fund balance increased by \$365,973. Tax and service revenues exceeded the costs of operating and maintaining the District's facilities.

The Debt Service Fund fund balance increased by \$464,667, primarily due to the structure of the District's outstanding debt and its obligation related to the Master District contract debt.

The Capital Project Fund fund balance decreased by \$2,347,734 due to capital outlay costs paid from bond proceeds received in a prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$93,482 less than budgeted revenues primarily due to lower property tax revenues than anticipated. Actual expenditures were \$80,165 less than budgeted expenditures primarily due to lower than anticipated costs in most categories, offset by higher than anticipated tap installation costs.

CAPITAL ASSETS

Capital assets as of March 31, 2018, total \$15,844,670. Significant capital asset activity during the current fiscal year included a reimbursement to the developer for water, wastewater, and drainage facilities serving Towne Lake, Sections 32, 32 Replat 1, 37, 15 Replats 1 and 2, and 40.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Construction in Progress	\$ 237,804	\$	\$ 237,804
Capital Assets, Net of Accumulated Depreciation:			
Depreciation:			
Water System	\$ 3,021,196	\$ 3,095,614	\$ (74,418)
Wastewater System	5,595,568	5,733,197	(137,629)
Drainage System	<u>6,990,102</u>	<u>7,160,119</u>	<u>(170,017)</u>
Total Net Capital Assets	<u>\$ 15,844,670</u>	<u>\$ 15,988,930</u>	<u>\$ (144,260)</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

LONG-TERM DEBT

At year-end, the District had total bond debt payable of \$24,970,000. The changes in the debt position of the District during the fiscal year ended March 31, 2018, are summarized as follows:

Bond Debt Payable, April 1, 2017	\$ 25,450,000
Less: Bond Principal Paid	<u>480,000</u>
Bond Debt Payable, March 31, 2018	<u>\$ 24,970,000</u>

The District's Series 2014 and Series 2015 Bonds were rated "AA" by Standard & Poor's and "A2" by Moody's based on policies issued by Assured Guaranty Municipal Corp. and the District's Series 2017 Bonds were rated "AA" by Standard & Poor's based on a policy issued by Build America Mutual Assurance Company. The District also had an underlying rating of "A3" by Moody's. These ratings are as of March 31, 2018, and reflect changes, if any, as of that date.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 501, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 392,719	\$ 2,402,518
Investments	3,336,289	3,316,527
Receivables:		
Property Taxes	3,784	232,207
Penalty and Interest on Delinquent Taxes		
Service Accounts	72,307	
Due from Other Funds	23,238	
Prepaid Costs	355	
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 3,828,692	\$ 5,951,252
LIABILITIES		
Accounts Payable	\$ 31,632	\$
Accrued Interest Payable		
Due to Other Funds	900	23,238
Due to Taxpayers		16,963
Security Deposits	224,880	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 257,412	\$ 40,201
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 3,784	\$ 232,207
FUND BALANCES		
Nonspendable: Prepaid Costs	\$ 355	\$
Restricted for Authorized Construction		
Restricted for Debt Service		2,716,875
Restricted for Master District Contract Debt		2,961,969
Unassigned	3,567,141	
TOTAL FUND BALANCES	\$ 3,567,496	\$ 5,678,844
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,828,692	\$ 5,951,252
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 3,281,756	\$ 6,076,993	\$	\$ 6,076,993
904,476	7,557,292		7,557,292
	235,991		235,991
	72,307	22,241	22,241
900	24,138	(24,138)	72,307
	355		355
		237,804	237,804
		15,606,866	15,606,866
<u>\$ 4,187,132</u>	<u>\$ 13,967,076</u>	<u>\$ 15,842,773</u>	<u>\$ 29,809,849</u>
\$ 220	\$ 31,852	\$	\$ 31,852
	24,138	68,445	68,445
	16,963	(24,138)	16,963
	224,880		224,880
		695,000	695,000
		23,835,376	23,835,376
<u>\$ 220</u>	<u>\$ 297,833</u>	<u>\$ 24,574,683</u>	<u>\$ 24,872,516</u>
<u>\$ -0-</u>	<u>\$ 235,991</u>	<u>\$ (235,991)</u>	<u>\$ -0-</u>
\$ 4,186,912	\$ 355	\$ (355)	\$
	4,186,912	(4,186,912)	
	2,716,875	(2,716,875)	
	2,961,969	(2,961,969)	
	3,567,141	(3,567,141)	
<u>\$ 4,186,912</u>	<u>\$ 13,433,252</u>	<u>\$ (13,433,252)</u>	<u>\$ - 0 -</u>
<u>\$ 4,187,132</u>	<u>\$ 13,967,076</u>		
		\$ (4,498,794)	\$ (4,498,794)
		5,864,847	5,864,847
		3,571,280	3,571,280
		<u>\$ 4,937,333</u>	<u>\$ 4,937,333</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2018**

Total Fund Balances - Governmental Funds	\$ 13,433,252
--	---------------

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets are not current financial resources and, therefore, are not reported as assets in governmental funds.	15,844,670
--	------------

Deferred inflows of resources related to property tax revenues and penalty and interest receivable for the 2017 and prior tax levy became part of recognized revenue in the governmental activities of the District.	258,232
--	---------

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (68,445)	
Bonds Payable	<u>(24,530,376)</u>	<u>(24,598,821)</u>

Total Net Position - Governmental Activities	<u>\$ 4,937,333</u>
--	---------------------

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2018

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 58,011	\$ 6,180,527
Water Service	538,683	
Wastewater Service	401,568	
Water Authority Fees	532,381	
Penalty and Interest	16,826	49,884
Tap Connection and Inspection Fees	125,570	
Miscellaneous Revenues	34,079	41,179
TOTAL REVENUES	\$ 1,707,118	\$ 6,271,590
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 138,830	\$ 16,071
Contracted Services	216,631	70,205
Purchased Water and Wastewater Service	774,090	
Repairs and Maintenance	48,743	
Depreciation		
Other	162,851	6,503
Capital Outlay		
Debt Service:		
Bond Issuance Costs		
Bond Principal		480,000
Bond Interest		825,078
Contractual Obligation		4,409,066
TOTAL EXPENDITURES/EXPENSES	\$ 1,341,145	\$ 5,806,923
NET CHANGE IN FUND BALANCES	\$ 365,973	\$ 464,667
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - APRIL 1, 2017	3,201,523	5,214,177
FUND BALANCES/NET POSITION - MARCH 31, 2018	\$ 3,567,496	\$ 5,678,844

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 6,238,538	\$ (21,885)	\$ 6,216,653
	538,683		538,683
	401,568		401,568
	532,381		532,381
	66,710	2,502	69,212
	125,570		125,570
<u>21,069</u>	<u>96,327</u>		<u>96,327</u>
\$ 21,069	\$ 7,999,777	\$ (19,383)	\$ 7,980,394
\$ 4,398	\$ 159,299	\$	\$ 159,299
	286,836		286,836
	774,090		774,090
	48,743		48,743
		382,064	382,064
325	169,679		169,679
2,338,034	2,338,034	(2,338,034)	
26,046	26,046		26,046
	480,000	(480,000)	
	825,078	22,751	847,829
	<u>4,409,066</u>		<u>4,409,066</u>
\$ 2,368,803	\$ 9,516,871	\$ (2,413,219)	\$ 7,103,652
\$ (2,347,734)	\$ (1,517,094)	\$ 1,517,094	\$
		876,742	876,742
<u>6,534,646</u>	<u>14,950,346</u>	<u>(10,889,755)</u>	<u>4,060,591</u>
\$ 4,186,912	\$ 13,433,252	\$ (8,495,919)	\$ 4,937,333

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$ (1,517,094)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues and penalty and interest revenues on delinquent taxes when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied and the penalty and interest is assessed.	(19,383)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(382,064)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	2,338,034
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	480,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	<u>(22,751)</u>
Change in Net Position - Governmental Activities	<u>\$ 876,742</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 501 (the “District”) was created effective August 15, 2007, by an Order of the Texas Commission on Environmental Quality, (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, drainage, solid waste collection and disposal, including recycling, and to construct parks, recreational facilities and roads for the residents of the District. The District is located within the extraterritorial jurisdiction of the City of Houston, Texas. The Board of Directors held its first meeting on August 24, 2007.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

The District and other districts have contracted with Harris County Municipal Utility District No. 500 in its capacity as Master District (the “Master District”) for the financing, operation, and maintenance of regional water, sanitary sewer, drainage, road, and recreational facilities. These facilities are under the oversight of the Master District’s Board of Directors and financial activity of the Master District has been included in the financial statements of the District as a note disclosure (see Note 9). Copies of the financial statements for the Master District may be obtained from Harris County Municipal Utility District No. 500 Master District, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, TX 77027.

Financial Statement Presentation

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

At year end, the Debt Service Fund owed the General Fund \$21,688 for maintenance tax collections and \$1,550 for paying agent fees and the General Fund owed the Capital Projects Fund \$900 for costs related to the issuance of the Series 2017 bonds.

Capital Assets

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

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Water System	10-45
Wastewater System	10-45
Drainage System	10-45

Budgeting

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

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered wages subject to federal income tax withholding for payroll purposes only.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

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

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 3. LONG-TERM DEBT

	<u>Series 2014</u>	<u>Series 2015</u>	<u>Series 2017</u>
Amount Outstanding – March 31, 2018	\$12,455,000	\$6,875,000	\$5,640,000
Interest Rates	2.00%-4.00%	2.25%-4.00%	3.00%-3.75%
Maturity Dates – Serially Beginning/Ending	September 1, 2018/2039	September 1, 2018/2041	September 1, 2018/2041
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Date	September 1, 2022*	September 1, 2023*	September 1, 2025*

* Or any date thereafter, in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2014 term bonds maturing on September 1, 2034, September 1, 2036 and September 1, 2039 are subject to mandatory redemption beginning September 1, 2033, September 1, 2035 and September 1, 2037, respectively. Series 2017 term bonds maturing on September 1, 2033, September 1, 2036, September 1, 2039 and September 1, 2041 are subject to mandatory redemption beginning September 1, 2032, September 1, 2034, September 1, 2037 and September 1, 2040, respectively.

The following is a summary of transactions regarding the changes in bonds payable for the year ended March 31, 2018:

	<u>April 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>March 31, 2018</u>
Bonds Payable	\$ 25,450,000	\$	\$ 480,000	\$ 24,970,000
Unamortized Discounts	(501,200)		(21,609)	(479,591)
Unamortized Premium	41,709		1,742	39,967
Bonds Payable, Net	<u>\$ 24,990,509</u>	<u>\$ -0-</u>	<u>\$ 460,133</u>	<u>\$ 24,530,376</u>
		Amount Due Within One Year		\$ 695,000
		Amount Due After One Year		<u>23,835,376</u>
		Bonds Payable, Net		<u>\$ 24,530,376</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 3. LONG-TERM DEBT (Continued)

As of March 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 695,000	\$ 811,862	\$ 1,506,862
2020	715,000	792,662	1,507,662
2021	740,000	773,713	1,513,713
2022	760,000	755,036	1,515,036
2023	785,000	734,838	1,519,838
2024-2028	4,320,000	3,316,245	7,636,245
2029-2033	5,095,000	2,610,363	7,705,363
2034-2038	6,080,000	1,661,728	7,741,728
2039-2042	5,780,000	443,239	6,223,239
	<u>\$ 24,970,000</u>	<u>\$ 11,899,686</u>	<u>\$ 36,869,686</u>

As of March 31, 2018, the District had authorized but unissued bonds in the amount of \$165,545,000 for water, sewer and drainage facilities, \$66,810,000 for roads and \$10,200,000 for recreational facilities. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

During the year ended March 31, 2018, the District levied an ad valorem debt service tax rate of \$0.25 per \$100 of assessed valuation, which resulted in a tax levy of \$1,253,730 on the adjusted taxable valuation of \$501,491,917 for the 2017 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy and Note 8 for the contract tax levy. The District's tax calendar is as follows:

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

Unreimbursed Costs

The District has entered into financing agreements with the Developer. The agreements call for the Developer to fund costs associated with water, sewer, drainage, park and road facilities until such time as the District can sell bonds to reimburse the Developer. As of March 31, 2018, the Developer has incurred additional costs for projects which were not complete at year-end. Reimbursement from these costs will come from future bond sales.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

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

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

In accordance with the Series 2017 bond resolution, a portion of the bond proceeds were deposited into the Debt Service Fund and restricted for the payment of bond interest. Transactions for the current year are summarized as follows:

Bond Interest Reserve - April 1, 2017	\$	185,953
Less: Bond Interest Paid		185,203
Bond Interest Reserve - March 31, 2018	\$	750

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$6,076,993 and the bank balance was \$6,046,100. The District was not exposed to custodial credit risk at year end.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2018, as listed below:

	Cash
GENERAL FUND	\$ 392,719
DEBT SERVICE FUND	2,402,518
CAPITAL PROJECTS FUND	3,281,756
TOTAL DEPOSITS	\$ 6,076,993

Investments

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

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of March 31, 2018, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 3,336,289	\$ 3,336,289
<u>DEBT SERVICE FUND</u>		
TexPool	2,262,761	2,262,761
TexPool	1,053,766	1,053,766
<u>CAPITAL PROJECTS FUND</u>		
TexPool	904,476	904,476
TOTAL INVESTMENTS	\$ 7,557,292	\$ 7,557,292

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2018, the District's investment in TexPool was rated AAAM by Standard and Poor's.

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

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of contractual debt, bond debt, and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2018:

	April 1, 2017	Increases	Decreases	March 31, 2018
Capital Assets Not Being Depreciated				
Construction in Progress	\$ - 0 -	\$ 237,804	\$ - 0 -	\$ 237,804
Capital Assets Subject to Depreciation				
Water System	\$ 3,348,803	\$	\$	\$ 3,348,803
Wastewater System	6,193,301			6,193,301
Drainage System	7,650,766			7,650,766
Total Capital Assets Subject to Depreciation	<u>\$ 17,192,870</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 17,192,870</u>
Less Accumulated Depreciation				
Water System	\$ 253,189	\$ 74,418	\$	\$ 327,607
Wastewater System	460,104	137,629		597,733
Drainage System	490,647	170,017		660,664
Total Accumulated Depreciation	<u>\$ 1,203,940</u>	<u>\$ 382,064</u>	<u>\$ - 0 -</u>	<u>\$ 1,586,004</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 15,988,930</u>	<u>\$ (382,064)</u>	<u>\$ - 0 -</u>	<u>\$ 15,606,866</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 15,988,930</u>	<u>\$ (144,260)</u>	<u>\$ - 0 -</u>	<u>\$ 15,844,670</u>

NOTE 7. MAINTENANCE TAX

On November 6, 2007, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used by the General Fund to pay expenditures for operations and maintenance of the District. During the year ended March 31, 2018, the District levied an ad valorem maintenance tax rate of \$0.005 per \$100 of assessed valuation, which resulted in a tax levy of \$25,074 on the adjusted taxable valuation of \$501,491,917 for the 2017 tax year.

On November 4, 2008, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$0.25 per \$100 of assessed valuation of taxable property within the District for purposes of constructing and maintaining roads within the District.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 8. CONTRACT TAX

The voters in the District have approved the levy and collection of an annual contract tax imposed on all taxable property within the boundaries of the District in an unlimited amount per \$100 of assessed valuation for purposes of making payments to the Master District for the debt service requirements of the Master District's water, sewer, drainage, road, and park contract revenue bonds, and for monthly charges associated with the services from the Master District's water, sewer, drainage, road, and park facilities. See Note 9. During the current year, the District levied an ad valorem contract tax rate of \$0.985 per \$100 of assessed valuation, which resulted in a tax levy of \$4,939,695 on the adjusted taxable valuation of \$501,491,917 for the 2017 tax year. The District made contractual payments of \$4,409,066 during the current fiscal year.

NOTE 9. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES

Harris County Municipal Utility District No. 500 as Master District (the "Master District") executed a 40-year contract with the District for the financing, operation and maintenance of the Master District's regional water, wastewater and drainage facilities as well as park and road facilities. The contract was amended November 3, 2010, October 15, 2013, December 3, 2014 and entered into by Harris County Municipal Utility District No. 503 on August 3, 2016. The Master District administers the contract for the Participants which include the District, Harris County Municipal Utility District No. 500, Harris County Municipal Utility District No. 502, and Harris County Municipal Utility District No. 503.

Each Participant has contracted with the Master District to provide, receive, and transport its water supply, sanitary waste, and storm waters through the Master District facilities. The Master District has also assumed the responsibility of providing parks and major roadways. The Master District owns and operates the Master District facilities, except to the extent roadways and storm sewers are accepted for maintenance by Harris County or other governmental entities.

The Master District finances the Master District facilities through the issuance of Master District contract revenue bonds. The Master District has the authority to issue water, wastewater and drainage bonds not to exceed \$754,660,000, road bonds not to exceed \$350,600,000 and park bonds not to exceed \$64,550,000. Each Participant is responsible for its pro rata share of the debt service requirements on the Master District contract revenue bonds. As of March 31, 2018, the Master District has authorized but unissued water, wastewater and drainage bonds of \$683,915,000, road bonds of \$317,650,000 and park bonds of \$64,550,000. As of March 31, 2018, the Master District has issued contract revenue bonds totaling \$109,110,000.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 9. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES (Continued)

As of March 31, 2018, the debt service requirements on the contract bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 2,165,000	\$ 3,431,213	\$ 5,596,213
2020	2,640,000	3,451,585	6,091,585
2021	2,740,000	3,358,577	6,098,577
2022	2,845,000	3,261,829	6,106,829
2023	2,940,000	3,176,186	6,116,186
2024-2028	16,215,000	14,462,505	30,677,505
2029-2033	19,180,000	11,716,189	30,896,189
2034-2038	23,355,000	7,973,441	31,328,441
2039-2043	28,150,000	3,159,120	31,309,120
	<u>\$ 100,230,000</u>	<u>\$ 53,990,645</u>	<u>\$ 154,220,645</u>

The Master District prepares an operating budget annually which is based on annual estimates provided by each Participant to the Master District for waste discharge, water usage and connections. Each Participant's monthly bill will be determined by multiplying the total number of equivalent single family residential connections reserved for the Participant on the first day of the previous month by the unit cost per equivalent single-family connections (\$45 for the 2018 fiscal year and \$50 for the 2019 fiscal year). The contract also provides for an operating reserve equal to three months operating expenses as set forth in the annual budget. However, the Master District has not established an operating reserve as of the balance sheet date.

During the year ended March 31, 2018, the District recorded expenditures of \$774,090 for purchased water and wastewater services. The following summary audited financial data of the regional facilities is presented for the year ended March 31, 2018.

	Master District Enterprise Fund
Total Assets	\$ 99,747,536
Total Deferred Outflows of Resources	1,062,085
Total Liabilities	<u>(113,393,945)</u>
Total Net Position	<u>\$ (12,584,324)</u>
Total Operating Revenues	\$ 1,617,153
Total Operating Expenses	<u>(4,412,367)</u>
Operating Income (Loss)	<u>\$ (2,795,214)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 1,258,253</u>
Change in Net Position	\$ (1,536,961)
Net Position – April 1, 2017	<u>(11,047,363)</u>
Net Position – March 31, 2018	<u>\$ (12,584,324)</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 10. 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. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT

On December 12, 2008, the City of Houston (the City), the Towne Lake Management District (the "MMD") and the District entered into a Strategic Partnership Agreement (Agreement). The Agreement provides for the annexation into the City of a tract of land in the District for limited purposes for the imposition of the City's Sales and Use Tax. The City shall pay to the MMD an amount equal to 50% of the City's Sales and Use Tax revenues received by the City and generated within the boundaries of the tract. The District agrees to pay to the City an annual fee of \$100 for the provision of municipal services provided in lieu of full purpose annexation. The City agrees to not annex or attempt to annex the District for full purposes unless it simultaneously annexes for full purposes Harris County Municipal Utility District Nos. 500, 501 and 503. The term of this agreement is 30 years from the effective date.

NOTE 12. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the West Harris County Regional Water Authority (the "Authority"). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the "Act"), as passed by the 77th Texas Legislature, in 2001. The Act, as amended, empowers the Authority for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. The current fee for 1,000 gallons of surface water from the Authority is \$3.10. These costs are included in the amounts paid to the Master District for purchased water services.

NOTE 13. ESCROW REQUIREMENT

By Order dated January 6, 2017, the Commission directed that a total of \$3,102,280 from the proceeds of the sale of Bonds be placed in escrow to be used for the construction of water, wastewater and drainage facilities plus storm water compliance activities for Towne Lake, Sections 39, 41, 44 and Towne Lake Section 39 replat. This amount remained in escrow at year-end. Subsequent to year-end, on July 11, 2018, the Commission approved an application for the release of escrow for Towne Lake, Section 44.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2018

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2018**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 256,950	\$ 58,011	\$ (198,939)
Water Service	570,000	538,683	(31,317)
Wastewater Service	350,000	401,568	51,568
Water Authority Fees	510,000	532,381	22,381
Penalty and Interest	15,000	16,826	1,826
Tap Connection and Inspection Fees	96,250	125,570	29,320
Miscellaneous Revenues	2,400	34,079	31,679
TOTAL REVENUES	<u>\$ 1,800,600</u>	<u>\$ 1,707,118</u>	<u>\$ (93,482)</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 176,000	\$ 138,830	\$ 37,170
Contracted Services	217,000	216,631	369
Purchased Water and Wastewater Service	823,230	774,090	49,140
Repairs and Maintenance	80,000	48,743	31,257
Other	125,080	162,851	(37,771)
TOTAL EXPENDITURES	<u>\$ 1,421,310</u>	<u>\$ 1,341,145</u>	<u>\$ 80,165</u>
NET CHANGE IN FUND BALANCE	\$ 379,290	\$ 365,973	\$ (13,317)
FUND BALANCE - APRIL 1, 2017	<u>3,201,523</u>	<u>3,201,523</u>	
FUND BALANCE - MARCH 31, 2018	<u>\$ 3,580,813</u>	<u>\$ 3,567,496</u>	<u>\$ (13,317)</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
MARCH 31, 2018

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2018**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective May 4, 2016.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 22.00	7,000	N	\$ 2.25	7,001 to 15,000
				\$ 2.50	15,001 to 25,000
				\$ 3.00	25,001 and up
WASTEWATER:	\$30.00 ⁽¹⁾		Y		
SURCHARGE:					
Commission					
Regulatory Assessments	Included in the rates above				
Surface Water Fees	110% of the surface water fee charged by the WHCRWA				

District employs winter averaging for wastewater usage?

 X
 Yes No

Total monthly charges per 10,000 gallons usage: Water: \$28.75 Wastewater: \$30.00 Surcharge: \$34.10

(1) Includes trash pick up

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2018**

2. **RETAIL SERVICE PROVIDERS (Continued)**

b. **WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>962</u>	<u>956</u>	x 1.0	<u>956</u>
1"	<u>171</u>	<u>171</u>	x 2.5	<u>428</u>
1½"			x 5.0	
2"	<u>7</u>	<u>7</u>	x 8.0	<u>56</u>
3"	<u>1</u>	<u>1</u>	x 15.0	<u>15</u>
4"			x 25.0	
6"	<u>4</u>	<u>4</u>	x 50.0	<u>200</u>
8"	<u>1</u>	<u>1</u>	x 80.0	<u>80</u>
10"			x 115.0	
Total Water Connections	<u><u>1,146</u></u>	<u><u>1,140</u></u>		<u><u>1,735</u></u>
Total Wastewater Connections	<u><u>1,118</u></u>	<u><u>1,112</u></u>	x 1.0	<u><u>1,112</u></u>

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

Gallons pumped into system: *

Water Accountability Ratio: *

Gallons billed to customers: 168,551,000

* The District, along with Harris County Municipal Utility District No. 500 (Internal District) and Harris County Municipal Utility District No. 502, receives water from the Harris County Municipal Utility District No. 500 Master District.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2018

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2018

PROFESSIONAL FEES:	
Auditing	\$ 13,800
Engineering	22,825
Legal	<u>102,205</u>
TOTAL PROFESSIONAL FEES	<u>\$ 138,830</u>
PURCHASED SERVICES FOR RESALE	<u>\$ 774,090</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 11,220
Operations and Billing	<u>35,394</u>
TOTAL CONTRACTED SERVICES	<u>\$ 46,614</u>
REPAIRS AND MAINTENANCE	<u>\$ 48,743</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 15,300
Dues	650
Insurance	4,292
Office Supplies and Postage	31,922
Payroll Taxes	1,171
Election	1,994
Travel and Meetings	<u>5,141</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 60,470</u>
TAP CONNECTIONS	<u>\$ 83,095</u>
SOLID WASTE DISPOSAL	<u>\$ 170,017</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 4,888
Permit Fees	1,117
Inspection Fees	8,941
Regulatory Assessment	<u>4,340</u>
TOTAL OTHER EXPENDITURES	<u>\$ 19,286</u>
TOTAL EXPENDITURES	<u>\$ 1,341,145</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
INVESTMENTS
MARCH 31, 2018

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 3,336,289	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 2,262,761	\$
TexPool	XXXX0004	Varies	Daily	1,053,766	
TOTAL DEBT SERVICE FUND				<u>\$ 3,316,527</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 904,476	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 7,557,292</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2018

	<u>Maintenance Taxes</u>		<u>Contract Taxes</u>		<u>Debt Service Taxes</u>
TAXES RECEIVABLE -					
APRIL 1, 2017	\$ 36,993		\$ 168,089		\$ 52,794
Adjustments to Beginning					
Balance	<u>(272)</u>	\$ 36,721	<u>(1,205)</u>	\$ 166,884	<u>(369)</u> \$ 52,425
Original 2017 Tax Levy	\$ 23,466		\$ 4,622,879		\$ 1,173,320
Adjustment to 2017 Tax Levy	<u>1,608</u>	<u>25,074</u>	<u>316,816</u>	<u>4,939,695</u>	<u>80,410</u> <u>1,253,730</u>
TOTAL TO BE					
ACCOUNTED FOR		\$ 61,795		\$ 5,106,579	\$ 1,306,155
TAX COLLECTIONS:					
Prior Years	\$ 33,801		\$ 152,860		\$ 47,789
Current Year	<u>24,210</u>	<u>58,011</u>	<u>4,769,376</u>	<u>4,922,236</u>	<u>1,210,502</u> <u>1,258,291</u>
TAXES RECEIVABLE -					
MARCH 31, 2018		<u>\$ 3,784</u>		<u>\$ 184,343</u>	<u>\$ 47,864</u>
TAXES RECEIVABLE BY					
YEAR:					
2017		\$ 864		\$ 170,319	\$ 43,228
2016		2,458		11,059	3,441
2015		<u>462</u>		<u>2,965</u>	<u>1,195</u>
TOTAL		<u>\$ 3,784</u>		<u>\$ 184,343</u>	<u>\$ 47,864</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2018

	2017	2016	2015	2014
PROPERTY VALUATIONS:				
Land	\$ 145,147,009	\$ 137,073,082	\$ 118,476,152	\$ 189,363,804
Improvements	442,748,929	373,452,164	282,682,200	50,313,553
Personal Property	2,404,899	1,868,747	1,655,201	1,173,496
Exemptions	<u>(88,808,920)</u>	<u>(36,003,960)</u>	<u>(28,503,381)</u>	<u>(22,295,438)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 501,491,917</u>	<u>\$ 476,390,033</u>	<u>\$ 374,310,172</u>	<u>\$ 218,555,415</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.250	\$ 0.28	\$ 0.375	\$ 0.31
Contract	0.985	0.90	0.930	0.66
Maintenance	<u>0.005</u>	<u>0.20</u>	<u>0.145</u>	<u>0.53</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.240</u>	<u>\$ 1.38</u>	<u>\$ 1.450</u>	<u>\$ 1.50</u>
ADJUSTED TAX LEVY*	<u>\$ 6,218,499</u>	<u>\$ 6,574,183</u>	<u>\$ 5,427,498</u>	<u>\$ 3,278,333</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>96.55 %</u>	<u>99.79 %</u>	<u>99.94 %</u>	<u>100.00 %</u>

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

On November 6, 2007, District voters approved an operations maintenance tax rate not to exceed \$1.50 per \$100 of assessed valuation.

On November 4, 2008, District voters approved a road maintenance tax rate not to exceed \$0.25 per \$100 of assessed valuation.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2018

SERIES - 2014

Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 345,000	\$ 405,456	\$ 750,456
2020	360,000	398,406	758,406
2021	375,000	391,056	766,056
2022	390,000	383,406	773,406
2023	410,000	374,382	784,382
2024	425,000	363,945	788,945
2025	445,000	351,956	796,956
2026	465,000	338,306	803,306
2027	490,000	323,981	813,981
2028	510,000	308,982	818,982
2029	535,000	292,972	827,972
2030	555,000	275,594	830,594
2031	580,000	256,788	836,788
2032	610,000	236,706	846,706
2033	635,000	215,300	850,300
2034	665,000	192,134	857,134
2035	695,000	167,484	862,484
2036	725,000	141,294	866,294
2037	760,000	113,450	873,450
2038	790,000	83,400	873,400
2039	825,000	51,100	876,100
2040	865,000	17,300	882,300
2041			
2042			
	<u>\$ 12,455,000</u>	<u>\$ 5,683,398</u>	<u>\$ 18,138,398</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2018

SERIES - 2015

Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 155,000	\$ 219,919	\$ 374,919
2020	160,000	213,619	373,619
2021	170,000	207,869	377,869
2022	180,000	202,618	382,618
2023	190,000	197,068	387,068
2024	200,000	190,218	390,218
2025	205,000	183,912	388,912
2026	220,000	178,994	398,994
2027	230,000	173,507	403,507
2028	240,000	167,482	407,482
2029	250,000	160,894	410,894
2030	265,000	153,481	418,481
2031	280,000	145,306	425,306
2032	290,000	136,756	426,756
2033	305,000	127,641	432,641
2034	320,000	117,676	437,676
2035	335,000	107,032	442,032
2036	355,000	95,597	450,597
2037	370,000	83,362	453,362
2038	390,000	70,293	460,293
2039	410,000	56,293	466,293
2040	430,000	41,325	471,325
2041	450,000	25,375	475,375
2042	475,000	8,609	483,609
	<u>\$ 6,875,000</u>	<u>\$ 3,264,846</u>	<u>\$ 10,139,846</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2018

S E R I E S - 2 0 1 7			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 195,000	\$ 186,487	\$ 381,487
2020	195,000	180,637	375,637
2021	195,000	174,788	369,788
2022	190,000	169,012	359,012
2023	185,000	163,388	348,388
2024	185,000	157,837	342,837
2025	185,000	152,288	337,288
2026	180,000	146,812	326,812
2027	170,000	141,563	311,563
2028	170,000	136,462	306,462
2029	165,000	131,438	296,438
2030	165,000	126,487	291,487
2031	155,000	121,688	276,688
2032	155,000	117,037	272,037
2033	150,000	112,275	262,275
2034	145,000	107,481	252,481
2035	140,000	102,675	242,675
2036	135,000	97,862	232,862
2037	130,000	93,225	223,225
2038	125,000	88,763	213,763
2039	125,000	84,387	209,387
2040	120,000	80,100	200,100
2041	1,020,000	58,875	1,078,875
2042	1,060,000	19,875	1,079,875
	\$ 5,640,000	\$ 2,951,442	\$ 8,591,442

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2018

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 695,000	\$ 811,862	\$ 1,506,862
2020	715,000	792,662	1,507,662
2021	740,000	773,713	1,513,713
2022	760,000	755,036	1,515,036
2023	785,000	734,838	1,519,838
2024	810,000	712,000	1,522,000
2025	835,000	688,156	1,523,156
2026	865,000	664,112	1,529,112
2027	890,000	639,051	1,529,051
2028	920,000	612,926	1,532,926
2029	950,000	585,304	1,535,304
2030	985,000	555,562	1,540,562
2031	1,015,000	523,782	1,538,782
2032	1,055,000	490,499	1,545,499
2033	1,090,000	455,216	1,545,216
2034	1,130,000	417,291	1,547,291
2035	1,170,000	377,191	1,547,191
2036	1,215,000	334,753	1,549,753
2037	1,260,000	290,037	1,550,037
2038	1,305,000	242,456	1,547,456
2039	1,360,000	191,780	1,551,780
2040	1,415,000	138,725	1,553,725
2041	1,470,000	84,250	1,554,250
2042	1,535,000	28,484	1,563,484
	<u>\$ 24,970,000</u>	<u>\$ 11,899,686</u>	<u>\$ 36,869,686</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2018

Description	Original Bonds Issued	Bonds Outstanding April 1, 2017
Harris County Municipal Utility District No. 501 Unlimited Tax Bonds - Series 2014	\$ 13,100,000	\$ 12,785,000
Harris County Municipal Utility District No. 501 Unlimited Tax Bonds - Series 2015	7,025,000	7,025,000
Harris County Municipal Utility District No. 501 Unlimited Tax Bonds - Series 2017	<u>5,640,000</u>	<u>5,640,000</u>
TOTAL	<u>\$ 25,765,000</u>	<u>\$ 25,450,000</u>

Bond Authority:	Water, Sewer, Drainage Facilities	Recreational Facilities	Road Bonds
Amount Authorized by Voters	\$ 191,310,000	\$ 10,200,000	\$ 66,810,000
Amount Issued	<u>25,765,000</u>	<u> </u>	<u> </u>
Remaining to be Issued	<u>\$ 165,545,000</u>	<u>\$ 10,200,000</u>	<u>\$ 66,810,000</u>

Debt Service Fund cash balance as of March 31, 2018: \$ 5,719,045

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 1,536,237

See Note 3 for interest rate, interest payment dates and maturity dates.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding March 31, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 330,000	\$ 413,856	\$ 12,455,000	Amegy Bank, N.A. Houston, TX
	150,000	226,019	6,875,000	Amegy Bank, N.A. Houston, TX
		185,203	5,640,000	The Bank of New York Mellon Trust Company, N.A.
<u>\$ - 0 -</u>	<u>\$ 480,000</u>	<u>\$ 825,078</u>	<u>\$ 24,970,000</u>	

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 58,011	\$ 931,883	\$ 622,612
Water Service	538,683	510,037	480,071
Wastewater Service	401,568	370,118	315,278
Water Authority Fees	532,381	473,303	395,676
Penalty and Interest	16,826	15,782	14,579
Tap Connection and Inspection Fees	125,570	91,180	200,800
Miscellaneous Revenues	34,079	2,696	1,888
TOTAL REVENUES	\$ 1,707,118	\$ 2,394,999	\$ 2,030,904
EXPENDITURES			
Professional Fees	\$ 138,830	\$ 187,845	\$ 124,460
Contracted Services	216,631	225,419	261,071
Purchased Water and Wastewater Services	774,090	829,650	886,320
Repairs and Maintenance	48,743	44,500	41,314
Other	162,851	131,775	164,080
TOTAL EXPENDITURES	\$ 1,341,145	\$ 1,419,189	\$ 1,477,245
NET CHANGE IN FUND BALANCE	\$ 365,973	\$ 975,810	\$ 553,659
BEGINNING FUND BALANCE	3,201,523	2,225,713	1,672,054
ENDING FUND BALANCE	\$ 3,567,496	\$ 3,201,523	\$ 2,225,713

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 1,127,124	\$ 520,817	3.3 %	38.8 %	30.7 %	44.3 %	37.3 %
405,611	225,862	31.6	21.3	23.6	16.0	16.1
238,183	124,543	23.5	15.5	15.5	9.4	8.9
289,997	149,381	31.2	19.8	19.5	11.4	10.7
8,105	11,670	1.0	0.7	0.7	0.3	0.8
470,745	366,169	7.4	3.8	9.9	18.6	26.2
986	579	2.0	0.1	0.1		
<u>\$ 2,540,751</u>	<u>\$ 1,399,021</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 107,074	\$ 155,892	8.1 %	7.8 %	6.1 %	4.2 %	11.1 %
181,217	106,768	12.7	9.4	12.9	7.1	7.6
812,040	455,100	45.3	34.6	43.6	32.0	32.5
91,876	52,892	2.9	1.9	2.0	3.6	3.8
341,316	230,340	9.5	5.5	8.1	13.4	16.5
<u>\$ 1,533,523</u>	<u>\$ 1,000,992</u>	<u>78.5 %</u>	<u>59.2 %</u>	<u>72.7 %</u>	<u>60.3 %</u>	<u>71.5 %</u>
\$ 1,007,228	\$ 398,029	<u>21.5 %</u>	<u>40.8 %</u>	<u>27.3 %</u>	<u>39.7 %</u>	<u>28.5 %</u>
664,826	266,797					
<u>\$ 1,672,054</u>	<u>\$ 664,826</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property/Contract Taxes	\$ 6,180,527	\$ 5,549,231	\$ 4,915,984
Penalty and Interest	49,884	23,076	31,952
Miscellaneous Revenues	41,179	6,846	3,778
TOTAL REVENUES	\$ 6,271,590	\$ 5,579,153	\$ 4,951,714
EXPENDITURES			
Other Expenditures	\$ 91,229	\$ 70,016	\$ 62,127
Debt Service Principal	480,000	315,000	
Debt Service Interest and Fees	826,628	654,100	506,668
Contractual Obligation	4,409,066	3,753,958	2,338,460
TOTAL EXPENDITURES	\$ 5,806,923	\$ 4,793,074	\$ 2,907,255
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 464,667	\$ 786,079	\$ 2,044,459
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	\$ - 0 -	\$ 185,953	\$ 226,840
NET CHANGE IN FUND BALANCE	\$ 464,667	\$ 972,032	\$ 2,271,299
BEGINNING FUND BALANCE	5,214,177	4,242,145	1,970,846
ENDING FUND BALANCE	\$ 5,678,844	\$ 5,214,177	\$ 4,242,145
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,140	1,070	1,014
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,112	1,050	988

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 2,054,024	\$ 739,225	98.5 %	99.5 %	99.3 %	99.3 %	100.0 %
12,607		0.8	0.4	0.6	0.6	
1,548	304	0.7	0.1	0.1	0.1	
<u>\$ 2,068,179</u>	<u>\$ 739,529</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 31,273	\$ 80	1.5 %	1.3 %	1.3 %	1.5 %	%
143,942		7.7	5.6			
956,277	499,032	13.2	11.7	10.2	7.0	
<u>\$ 1,131,492</u>	<u>\$ 499,112</u>	<u>70.3</u>	<u>67.3</u>	<u>47.2</u>	<u>46.2</u>	<u>67.5</u>
\$ 936,687	\$ 240,417	92.7 %	85.9 %	58.7 %	54.7 %	67.5 %
\$ 642,384	\$ - 0 -	7.3 %	14.1 %	41.3 %	45.3 %	32.5 %
\$ 1,579,071	\$ 240,417					
391,775	151,358					
<u>\$ 1,970,846</u>	<u>\$ 391,775</u>					
<u>865</u>	<u>572</u>					
<u>847</u>	<u>568</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2018

District Mailing Address - Harris County Municipal Utility District No. 501
c/o Allen Boone Humphries Robinson LLP
3200 Southwest Freeway, Suite 2600
Houston, TX 77027

District Telephone Number - (713) 860-6400

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended March 31, 2018	Expense Reimbursements for the year ended March 31, 2018	Title as of March 31, 2018
Jim Harkrider	05/14 - 05/18 (Elected)	\$ 1,800	\$ 359	President
Sandy Steriti	05/14 - 05/18 (Elected)	\$ 1,800	\$ 349	Vice President
Amy Cross-Markiewicz	05/16 - 05/20 (Elected)	\$ 5,550	\$ 2,362	Assistant Vice President
Henry Abel, Jr.	05/14 - 05/18 (Elected)	\$ 1,800	\$ 430	Secretary
George Gentry	05/16 - 05/20 (Elected)	\$ 4,350	\$ 561	Assistant Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants. The District's auditor leases office space from an entity affiliated with the District's Developer.

The submission date of the most recent District Registration Form was (TWC Sections 36.054 and 49.054): May 25, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on August 24, 2007. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 501
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2018

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2018</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	08/24/07	\$ 109,769	General Counsel
McCall Gibson Swedlund Barfoot PLLC	04/01/09	\$ 13,800	Audit Related
F. Matuska, Inc.	10/03/07	\$ 12,270	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/05/08	\$ 16,071	Delinquent Tax Attorney
Edminster, Hinshaw, Russ and Associates, Inc.	10/03/07	\$ 34,599	Engineer
RBC Capital Markets	10/03/07	\$ 6,000	Financial Advisor
Fran Matuska	10/03/07	\$ -0-	Investment Officer
Environmental Development Partners	07/02/08	\$ 206,423	Operator
Bob Leared Interest, Inc.	10/03/07	\$ 26,896	Tax Assessor/ Collector

See accompanying independent auditor's report.

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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July 11, 2018

Board of Directors
Harris County Municipal
Utility District No. 501
Harris County, Texas

In planning and performing our audit of the financial statements of Harris County Municipal Utility District No. 501 (the "District") as of and for the year ended March 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the District's financial statements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weaknesses

Last year, and again this year, we observed the following matters that we consider to be material weaknesses.

The District's management consists of an elected Board of Directors ("Directors"). Day-to-day operations are performed by private companies ("Consultants") under contract with the District. The Directors of the District supervise the performance of the Consultants; however, although the Consultants can be part of the District's system of internal control, the Consultants are not members of management. Ultimately, the Directors are responsible for design and implementation of the system of internal control.

As is common within the system of internal control of most small organizations, the accounting function of the District does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness of the District's system of internal control over financial reporting.

Material Weaknesses (Continued)

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements on the government-wide basis of accounting. Management's reliance upon the auditor to detect and make these necessary adjustments is considered to be a material weakness in internal control. In addition, the District's Management relies on the District's auditor to prepare the capital asset and depreciation schedules and post adjustments related to the presentation of the capital assets in the government-wide financial statements. This reliance on the auditor to perform this function is considered to be a material weakness in the system of internal control. Auditing standards do not make exceptions for reporting deficiencies that are adequately mitigated with nonaudit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

We agree with the objective of auditing standards to inform an organization of all the conditions in its internal control that interfere with its ability to record financial data reliably and issue financial statements free of material misstatement. Communication of the material weaknesses above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor.

Management's Response

The financial statements have been prepared in a manner that is consistent with prior years. The Board engages a bonded bookkeeper who possesses industry knowledge and expertise, including a concentration in special districts accounting. The Board also engages a financial advisor and tax assessor/collector who possess industry knowledge and expertise, as well as legal and professional engineering services. The Board has consulted with its independent auditor concerning this "management letter" and the auditor does not recommend any change in the Board's bookkeeping or audit procedures at this time. To the best of its knowledge, the Board conducts the District's business affairs in the same manner as other similarly situated special districts, and, based on the recommendations of its auditor, does not believe that the addition of an employee to oversee the monthly and annual financial reporting process or to prepare financial statements or that undertaking an additional annual audit is necessary or cost effective.

Conclusion

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Directors and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 502
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 502 (the "District"), as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

July 10, 2018

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

Management's discussion and analysis of Harris County Municipal Utility District No. 502's (the "District") financial performance provides an overview of the District's financial activities for the year ended March 31, 2018. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$970,938 as of March 31, 2018. A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 6,057,407	\$ 290,432	\$ 5,766,975
Capital Assets (Net of Accumulated Depreciation)	8,132,228	3,637,372	4,494,856
Total Assets	\$ 14,189,635	\$ 3,927,804	\$ 10,261,831
Due to Developer	\$ 7,076,683	\$ 2,922,161	\$ (4,154,522)
Bonds Payable/BAN Payable	7,883,001	1,225,500	(6,657,501)
Other Liabilities	200,889	71,132	(129,757)
Total Liabilities	\$ 15,160,573	\$ 4,218,793	\$ (10,941,780)
Net Position:			
Net Investment in Capital Assets	\$ (1,820,060)	\$ (214,939)	\$ (1,605,121)
Restricted	813,531	159,515	654,016
Unrestricted	35,591	(235,565)	271,156
Total Net Position	\$ (970,938)	\$ (290,989)	\$ (679,949)

The following table provides a summary of the District's operations for the years ending March 31, 2018 and March 31, 2017.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,203,348	\$ 403,435	\$ 799,913
Charges for Services	683,023	369,357	313,666
Other Revenues	34,944	15,571	19,373
Total Revenues	\$ 1,921,315	\$ 788,363	\$ 1,132,952
Expenses for Services	2,601,264	829,227	(1,772,037)
Change in Net Position	\$ (679,949)	\$ (40,864)	\$ (639,085)
Net Position, Beginning of Year	(290,989)	(250,125)	(40,864)
Net Position, End of Year	\$ (970,938)	\$ (290,989)	\$ (679,949)

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2018, totaled \$1,324,047, an increase of \$2,331,300.

The General Fund fund balance increased by \$93,422, primarily due to tax revenues, service revenues and developer advances exceeding costs of operating and maintaining the District's facilities.

The Debt Service Fund fund balance increased by \$652,274, primarily due to the structure of the District's debt obligation to the Master District and tax revenues collected in the current year, as well as capitalized interest received during the year from the sale of bonds.

The Capital Projects Fund fund balance increased by \$1,585,604, primarily due to proceeds from the sale of bonds which were used to retire the Series 2016 BAN and reimburse the Developer. See also Note 12.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$67,407 more than budgeted revenues due to higher than anticipated service revenues. Actual expenditures were \$51,375 more than budgeted expenditures primarily due to higher than anticipated professional and contracted services. See the budget to actual comparison for variances by category.

CAPITAL ASSETS

Capital assets as of March 31, 2018, total \$8,132,228 (net of accumulated depreciation) and include the water, wastewater and drainage systems. Capital asset activity during the current year included reimbursement to the developer for water, wastewater and drainage improvements serving Towne Lake Section 34, Section 35, Section 36, Section 38, and Section 42 and the completion of utilities serving Towne Lake, Section 46.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2018	2017	Change Positive (Negative)
Capital Assets, Net of Accumulated Depreciation:			
Water System	\$ 1,618,662	\$ 634,173	\$ 984,489
Wastewater System	2,988,522	1,203,406	1,785,116
Drainage System	3,525,044	1,799,793	1,725,251
Total Net Capital Assets	\$ 8,132,228	\$ 3,637,372	\$ 4,494,856

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018**

LONG-TERM DEBT

As of March 31, 2018, the District had bond debt payable of \$7,840,000. The changes in debt position of the District during the year ended March 31, 2018, are summarized as follows:

Bond Debt Payable, April 1, 2017	\$ - 0 -
Add: Bond Sales - Series 2017 and 2018	7,840,000
Bond Debt Payable, March 31, 2018	\$ <u>7,840,000</u>

The District's bonds do not carry an underlying rating. The Series 2018 bonds carry an "AA" rating by virtue of bond insurance issued by Build America Mutual Assurance Company. The above ratings are as of March 31, 2018, and reflect all ratings changes, if any, through that date.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 502, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas 77019.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 112,131	\$ 855,456
Receivables:		
Property Taxes	13,120	57,164
Service Accounts	34,119	
Penalty and Interest on Delinquent Taxes		
Due from Other Funds	92,180	
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 251,550	\$ 912,620
LIABILITIES		
Accounts Payable	\$ 44,385	\$
Accrued Interest Payable		
Due to Developers		
Due to Other Funds		22,981
Due to Taxpayers		3,501
Security Deposits	64,961	
Accrued Interest at Time of Sale		18,045
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 109,346	\$ 44,527
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 13,120	\$ 57,164
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Contract Debt Service		364,364
Restricted for Debt Service		446,565
Unassigned	129,084	
TOTAL FUND BALANCES	\$ 129,084	\$ 810,929
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 251,550	\$ 912,620
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 4,981,123	\$ 5,948,710	\$	\$ 5,948,710
	70,284		70,284
	34,119		34,119
		4,294	4,294
	92,180	(92,180)	
		8,132,228	8,132,228
<u>\$ 4,981,123</u>	<u>\$ 6,145,293</u>	<u>\$ 8,044,342</u>	<u>\$ 14,189,635</u>
\$ 11,141	\$ 55,526	\$	\$ 55,526
		76,901	76,901
4,516,749	4,516,749	2,559,934	7,076,683
69,199	92,180	(92,180)	
	3,501		3,501
	64,961		64,961
	18,045	(18,045)	
		50,000	50,000
		7,833,001	7,833,001
<u>\$ 4,597,089</u>	<u>\$ 4,750,962</u>	<u>\$ 10,409,611</u>	<u>\$ 15,160,573</u>
\$ - 0 -	\$ 70,284	\$ (70,284)	\$ - 0 -
\$ 384,034	\$ 384,034	\$ (384,034)	\$
	364,364	(364,364)	
	446,565	(446,565)	
	129,084	(129,084)	
<u>\$ 384,034</u>	<u>\$ 1,324,047</u>	<u>\$ (1,324,047)</u>	<u>\$ - 0 -</u>
<u>\$ 4,981,123</u>	<u>\$ 6,145,293</u>		
		\$ (1,820,060)	\$ (1,820,060)
		813,531	813,531
		35,591	35,591
		<u>\$ (970,938)</u>	<u>\$ (970,938)</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2018**

Total Fund Balances - Governmental Funds \$ 1,324,047

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets are not current financial resources and, therefore, are not reported as assets in governmental funds. 8,132,228

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2017 tax levy became part of recognized revenue in the governmental activities of the District. 74,578

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Due to Developer	\$ (2,559,934)	
Accrued Interest Payable	(58,856)	
Bonds Payable	(7,883,001)	(10,501,791)

Total Net Position - Governmental Activities \$ (970,938)

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2018

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 211,713	\$ 922,404
Water Service	161,666	
Wastewater Service	82,871	
Water Authority Fees	150,621	
Penalty and Interest	5,742	4,452
Tap Connection and Inspection Fees	287,865	
Miscellaneous Revenues	9,429	10,691
TOTAL REVENUES	\$ 909,907	\$ 937,547
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 142,719	\$
Contracted Services	70,065	14,680
Purchased Water and Wastewater Service	463,725	
Repairs and Maintenance	28,887	
Depreciation		
Other	186,289	4,431
Capital Outlay		
Debt Service:		
Bond/Bond Anticipation Note Issuance Costs		
Bond Interest		
Contractual Obligation		591,297
TOTAL EXPENDITURES/EXPENSES	\$ 891,685	\$ 610,408
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 18,222	\$ 327,139
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ (9,800)	\$ 9,800
Developer Advances	85,000	
Bond Discount		
Bond Premium		
Proceeds From Issuance of Long-Term Debt		315,335
TOTAL OTHER FINANCING SOURCES (USES)	\$ 75,200	\$ 325,135
NET CHANGE IN FUND BALANCES	\$ 93,422	\$ 652,274
CHANGE IN NET POSITION		
FUND BALANCES(DEFICIT)/NET POSITION - APRIL 1, 2017	35,662	158,655
FUND BALANCES/NET POSITION - MARCH 31, 2018	\$ 129,084	\$ 810,929

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,134,117	\$ 69,231	\$ 1,203,348
	161,666		161,666
	82,871		82,871
	150,621		150,621
	10,194	4,294	14,488
	287,865		287,865
336	20,456		20,456
\$ 336	\$ 1,847,790	\$ 73,525	\$ 1,921,315
\$	\$ 142,719	\$	\$ 142,719
	84,745		84,745
	463,725		463,725
	28,887		28,887
		158,566	158,566
46,595	237,315		237,315
5,100,649	5,100,649	(5,100,649)	
834,528	834,528		834,528
		59,482	59,482
	591,297		591,297
\$ 5,981,772	\$ 7,483,865	\$ (4,882,601)	\$ 2,601,264
\$ (5,981,436)	\$ (5,636,075)	\$ 4,956,126	\$ (679,949)
\$	\$	\$	\$
	85,000	(85,000)	
(28,380)	(28,380)	28,380	
70,755	70,755	(70,755)	
7,524,665	7,840,000	(7,840,000)	
\$ 7,567,040	\$ 7,967,375	\$ (7,967,375)	\$ -0-
\$ 1,585,604	\$ 2,331,300	\$ (2,331,300)	\$
		(679,949)	(679,949)
(1,201,570)	(1,007,253)	716,264	(290,989)
\$ 384,034	\$ 1,324,047	\$ (2,294,985)	\$ (970,938)

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$	2,331,300
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		69,231
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		4,294
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(158,566)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		5,100,649
Governmental funds report bond discounts and bond premiums as other financing sources/uses in the year paid. However, in the Statement of Net Position, the bond discounts and bond premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		(42,375)
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(59,482)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		(7,840,000)
Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances are recorded as a liability.		<u>(85,000)</u>
Change in Net Position - Governmental Activities	\$	<u>(679,949)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 502 (the “District”) was created effective August 16, 2007, by an Order of the Texas Commission on Environmental Quality, (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks, recreational facilities and roads for the residents of the District. The District is located within the extraterritorial jurisdiction of the City of Houston, Texas. The Board of Directors held its first meeting on August 24, 2007.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

The District and other districts have contracted with the Master District for the financing, operation, and maintenance of regional water, sanitary sewer, and storm sewer facilities. These facilities are under the oversight of the Master District’s Board of Directors. Financial activity of the Master District has been included in the financial statements of the District as a note disclosure. Copies of the financial statements for the Master District may be obtained from Harris County Municipal Utility District No. 500 Master District, c/o Allen Boone Humphries Robinson L.L.P., 3200 Southwest Freeway, Suite 2600, Houston, TX 77027.

Financial Statement Presentation

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of the fiscal year-end, the Debt Service Fund owed the General Fund \$22,981 for the over transfer of maintenance tax collections. The General Fund transferred \$9,800 to the Debt Service Fund related to contract taxes. The Capital Projects Fund owed the General Fund \$69,199 for issuance costs related to the sale of bonds.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

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

Budgeting

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

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 3. LONG-TERM DEBT

	<u>Series 2017</u>	<u>Series 2018</u>
Amount Outstanding – March 31, 2018	\$2,440,000	\$5,400,000
Interest Rates	2.00%-3.85%	3.00%-4.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2018/2042	September 1, 2019/2043
Interest Payment Dates	September 1/ March 1	September 1/ March 1
Callable Date	September 1, 2025*	September 1, 2023*

* Or any date thereafter, in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2017 term bonds maturing on September 1, 2032, September 1, 2034, September 1, 2036, September 1, 2038, and September 1, 2042 are subject to mandatory redemption beginning September 1, 2031, September 1, 2033, September 1, 2035, September 1, 2037 and September 1, 2039, respectively. Series 2018 term bonds maturing on September 1, 2033, September 1, 2038, and September 1, 2043 are subject to mandatory redemption beginning September 1, 2030, September 1, 2034, and September 1, 2039, respectively.

The following is a summary of transactions regarding the changes in bonds payable for the year ended March 31, 2018:

	April 1, 2017	Additions	Retirements	March 31, 2018
Bonds Payable	\$	\$ 7,840,000	\$	\$ 7,840,000
Unamortized Discount		(28,380)	(850)	(27,530)
Unamortized Premium		70,755	224	70,531
Bonds Payable, Net	\$ -0-	\$ 7,882,375	\$ (626)	\$ 7,883,001
		Amount Due Within One Year		\$ 50,000
		Amount Due After One Year		7,833,001
		Bonds Payable, Net		<u>\$ 7,883,001</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 3. LONG-TERM DEBT (Continued)

As of March 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 50,000	\$ 313,244	\$ 363,244
2020	180,000	273,695	453,695
2021	185,000	266,858	451,858
2022	195,000	259,700	454,700
2023	200,000	252,249	452,249
2017-2021	1,150,000	1,138,772	2,288,772
2022-2026	1,415,000	931,142	2,346,142
2027-2031	1,760,000	657,720	2,417,720
2032-2036	2,200,000	302,265	2,502,265
2037-2038	505,000	9,153	514,153
	\$ 7,840,000	\$ 4,404,798	\$ 12,244,798

As of March 31, 2018, the District had authorized but unissued bonds in the amount of \$161,350,000 for water, sewer and drainage facilities, \$14,800,000 for recreational facilities and \$73,750,000 for road construction. The bond authorizations also include bonds issued for refunding purposes.

During the year ended March 31, 2018, the District levied an ad valorem debt service tax rate of \$0.21 per \$100 of assessed valuation, which resulted in a tax levy of \$168,464 on the adjusted taxable valuation of \$80,220,557 for the 2017 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy and Note 8 for the contract tax levy. The District's tax calendar is as follows:

Levy Date - October 1, or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS (Continued)

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

In accordance with Series 2017 and Series 2018 bond orders, a portion of the bond proceeds were deposited into the Debt Service Fund and restricted for the payment of bond interest. Transactions for the current year are summarized as follows:

Bond Interest Reserve - April 1, 2017	\$	- 0 -
Add: Capitalized Interest - Series 2017		117,873
Add: Capitalized Interest - Series 2018		197,462
Bond Interest Reserve - March 31, 2018	\$	315,335

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$5,948,710 and the bank balance was \$6,003,878. The District was not exposed to custodial credit risk at year end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2018 as listed below:

		Cash
GENERAL FUND	\$	112,131
DEBT SERVICE FUND		855,456
CAPITAL PROJECTS FUND		4,981,123
TOTAL DEPOSITS	\$	5,948,710

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act. As of March 31, 2018, the District had no investments.

NOTE 6. CAPITAL ASSETS

	April 1, 2017	Increases	Decreases	March 31, 2018
Capital Assets Subject to Depreciation				
Water System	\$ 653,249	\$ 1,014,306	\$ -	\$ 1,667,555
Wastewater System	1,238,599	1,841,328		3,079,927
Drainage System	1,859,400	1,797,788		3,657,188
Total Capital Assets Subject to Depreciation	\$ 3,751,248	\$ 4,653,422	\$ - 0 -	\$ 8,404,670
Less Accumulated Depreciation				
Water System	\$ 19,076	\$ 29,817	\$ -	\$ 48,893
Wastewater System	35,193	56,212		91,405
Drainage System	59,607	72,537		132,144
Total Accumulated Depreciation	\$ 113,876	\$ 158,566	\$ - 0 -	\$ 272,442
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 3,637,372	\$ 4,494,856	\$ - 0 -	\$ 8,132,228
Total Capital Assets, Net of Accumulated Depreciation	\$ 3,637,372	\$ 4,494,856	\$ - 0 -	\$ 8,132,228

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 7. MAINTENANCE TAX

On November 6, 2007, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used by the General Fund to pay expenditures for operations and maintenance of the District. During the year ended March 31, 2018, the District levied an ad valorem maintenance tax rate of \$0.28 per \$100 of assessed valuation, which resulted in a tax levy of \$224,618 on the adjusted taxable valuation of \$80,220,557 for the 2017 tax year.

On November 4, 2008, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$0.25 per \$100 of assessed valuation of taxable property within the District for purposes of constructing and maintaining roads within the District.

NOTE 8. CONTRACT TAX

The voters in the District have approved the levy and collection of an annual contract tax imposed on all taxable property within the boundaries of the District in an unlimited amount per \$100 of assessed valuation for purposes of making payments to the Master District for the debt service requirements of the Master District's water, sewer, drainage, road, and park contract tax revenue bonds, and for monthly charges associated with the services from the Master District's water, sewer, drainage, road, and park facilities. During the current year, the District levied an ad valorem contract tax rate of \$1.01 per \$100 of assessed valuation, which resulted in a tax levy of \$810,228 on the adjusted taxable valuation of \$80,220,557 for the 2017 tax year. The District paid \$591,297 to the Master District during the year to satisfy its contract debt obligations.

NOTE 9. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES

Harris County Municipal Utility District No. 500 as Master District (the "Master District") executed a 40-year contract with the District for the financing, operation and maintenance of the Master District's regional water, wastewater and drainage facilities as well as park and road facilities. The contract was amended November 3, 2010, October 15, 2013, December 3, 2014 and entered into by Harris County Municipal Utility District No. 503 on August 3, 2016. The Master District administers the contract for the Participants which include the District, Harris County Municipal Utility District No. 500, Harris County Municipal Utility District No. 501, and Harris County Municipal Utility District No. 503.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 9. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES (Continued)

Each Participant has contracted with the Master District to provide, receive, and transport its water supply, sanitary waste, and storm waters through the Master District facilities. The Master District has also assumed the responsibility of providing parks and major roadways. The Master District owns and operates the Master District facilities, except to the extent roadways and storm sewers are accepted for maintenance by Harris County or other governmental entities.

The Master District finances the Master District facilities through the issuance of Master District contract revenue bonds. The Master District has the authority to issue water, wastewater and drainage bonds not to exceed \$754,660,000, road bonds not to exceed \$350,600,000 and park bonds not to exceed \$64,550,000. Each Participant is responsible for its pro rata share of the debt service requirements on the Master District contract revenue bonds. As of March 31, 2018, the Master District has authorized but unissued water, wastewater and drainage bonds of \$683,915,000, road bonds of \$317,650,000 and park bonds of \$64,550,000. As of March 31, 2018, the Master District has issued contract revenue bonds totaling \$109,110,000.

As of March 31, 2018, the debt service requirements on the contract bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 2,165,000	\$ 3,431,213	\$ 5,596,213
2020	2,640,000	3,451,585	6,091,585
2021	2,740,000	3,358,577	6,098,577
2022	2,845,000	3,261,829	6,106,829
2023	2,940,000	3,176,186	6,116,186
2024-2028	16,215,000	14,462,505	30,677,505
2029-2033	19,180,000	11,716,189	30,896,189
2034-2038	23,355,000	7,973,441	31,328,441
2039-2043	28,150,000	3,159,120	31,309,120
	\$ 100,230,000	\$ 53,990,645	\$ 154,220,645

The Master District prepares an operating budget annually. The budget is based on annual estimates provided by each Participant to the Master District for waste discharge, water usage and connections. Each Participant's monthly bill is determined by multiplying the total number of equivalent single family residential connections reserved for the Participant on the first day of the previous month by the unit cost per equivalent single-family connections (\$45 for the 2018 fiscal year and \$50 fee for the 2019 fiscal year). The contract also provides for an operating reserve equal to three months operating expenses as set forth in the annual budget. However, the Master District has not established an operating reserve as of the balance sheet date.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 9. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES (Continued)

The following summary audited financial data on the regional facilities is presented for the year ended March 31, 2018.

	<u>Master District Enterprise Fund</u>
Total Assets	\$ 99,747,536
Total Deferred Outflows of Resources	1,062,085
Total Liabilities	<u>(113,393,945)</u>
Total Net Position	<u>\$(12,584,324)</u>
Total Operating Revenues	\$ 1,617,153
Total Operating Expenses	<u>(4,412,367)</u>
Operating Income (Loss)	<u>\$ (2,795,214)</u>
Total Non-operating Revenues (Expenses)	<u>\$ 1,258,253</u>
Change in Net Position	\$ (1,536,961)
Net Position – April 1, 2017	<u>(11,047,363)</u>
Net Position – March 31, 2018	<u>\$ (12,584,324)</u>

NOTE 10. UNREIMBURSED COSTS

The District has entered into financing agreements with the Developer which call for the Developer to fund operating advances as well as costs associated with the construction of water, sewer, drainage, park and road facilities until such time as the District can sell bonds to reimburse the Developer. The District has recorded a liability to the Developer of \$7,076,683 for operating advances and improvements for water, wastewater and drainage facilities.

NOTE 11. 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. There have been no significant reductions in coverage from the prior years and settlements have not exceeded coverage in the last three years.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 12. BOND SALES

On July 13, 2017, the District issued its \$2,440,000 Series 2017 Bonds. The District used the proceeds to retire the Series 2016 BAN and to reimburse the developer for the remaining costs associated with the construction and engineering of facilities to serve Towne Lake, Sections 32 and 33, Section 32 replat and operating advances. Additional proceeds were used to pay for the issuance costs of the bonds and BAN interest.

On March 29, 2018, the District issued its \$5,400,000 Series 2018 Bonds. The District used the proceeds to reimburse the developer for the remaining costs associated with the construction and engineering of facilities to serve Towne Lake, Sections 34, 35, 36, 38 and 42. Additional proceeds were used to pay for the issuance costs of the bonds.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 216,500	\$ 211,713	\$ (4,787)
Water Service	150,000	161,666	11,666
Wastewater Service	60,000	82,871	22,871
Water Authority Fees	110,000	150,621	40,621
Penalty and Interest	6,000	5,742	(258)
Tap Connection and Inspection Fees	300,000	287,865	(12,135)
Miscellaneous Revenues		9,429	9,429
TOTAL REVENUES	\$ 842,500	\$ 909,907	\$ 67,407
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 117,500	\$ 142,719	\$ (25,219)
Contracted Services	52,800	70,065	(17,265)
Purchased Water and Wastewater Service	460,620	463,725	(3,105)
Repairs and Maintenance	30,000	28,887	1,113
Other	179,390	186,289	(6,899)
TOTAL EXPENDITURES	\$ 840,310	\$ 891,685	\$ (51,375)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 2,190	\$ 18,222	\$ 16,032
OTHER FINANCING SOURCES(USES)			
Transfers Out	\$	\$ (9,800)	\$ (9,800)
Developer Advances		85,000	85,000
TOTAL OTHER FINANCING SOURCES (USES)	\$ -0-	\$ 75,200	\$ 75,200
NET CHANGE IN FUND BALANCE	\$ 2,190	\$ 93,422	\$ 91,232
FUND BALANCE - APRIL 1, 2017	35,662	35,662	
FUND BALANCE - MARCH 31, 2018	\$ 37,852	\$ 129,084	\$ 91,232

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MARCH 31, 2018

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2018**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective June 13, 2017.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	Flat Rate Y/N	Rate per 1,000 Gallons over <u>Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 22.00	7,000	N	\$ 2.25 \$ 2.50 \$ 3.00	7,001 to 15,000 15,001 to 25,000 25,001 and up
WASTEWATER:	\$ 30.00		Y		
SURCHARGE:					
Commission					
Regulatory Assessments		Included in the rates above			
Surface Water Fees	\$3.41 per 1,000 gallons				

District employs winter averaging for wastewater usage? Yes No

Total monthly charges per 10,000 gallons usage: Water: \$28.75 Wastewater: \$30.00 Surcharge: \$34.10

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2018**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered			x 1.0	
^{3/4}"	335	329	x 1.0	329
1"	39	39	x 2.5	98
1 ¹ / ₂ "	2	2	x 5.0	10
2"	1	1	x 8.0	8
3"			x 15.0	
4"			x 25.0	
6"	1	1	x 50.0	50
8"			x 80.0	
10"			x 115.0	
Total Water Connections	378	372		495
Total Wastewater Connections	373	367	x 1.0	367

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

Gallons billed to customers: 48,004,000 Water Accountability Ratio: * %

* The District, along with Harris County Municipal Utility District No. 500 (Internal District) and Harris County Municipal Utility District No. 501, receive water from the Harris County Municipal Utility District No. 500 Master District.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2018**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes **NO**

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2018

PROFESSIONAL FEES:	
Auditing	\$ 10,250
Engineering	34,521
Legal	97,948
	142,719
TOTAL PROFESSIONAL FEES	\$ 142,719
	463,725
PURCHASED SERVICES FOR RESALE	
CONTRACTED SERVICES:	
Bookkeeping	\$ 8,350
Operations and Billing	12,692
	21,042
TOTAL CONTRACTED SERVICES	\$ 21,042
	28,887
REPAIRS AND MAINTENANCE	
ADMINISTRATIVE EXPENDITURES:	
Consumer Confidence Report	\$ 600
Director Fees	6,900
Insurance	6,086
Office Supplies and Postage	12,501
Payroll Taxes	528
Travel and Meetings	864
Other	910
	28,389
TOTAL ADMINISTRATIVE EXPENDITURES	\$ 28,389
	132,040
TAP CONNECTIONS	
	49,023
SOLID WASTE DISPOSAL	
OTHER EXPENDITURES:	
Laboratory Fees	\$ 2,710
Permit Fees	131
Inspection Fees	21,923
Regulatory Assessment	1,096
	25,860
TOTAL OTHER EXPENDITURES	\$ 25,860
	891,685
TOTAL EXPENDITURES	\$ 891,685

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2018

	Maintenance Taxes		Contract Taxes		Debt Service Taxes	
TAXES RECEIVABLE - APRIL 1, 2017	\$	193	\$	800	\$	60
Adjustments to Beginning Balance	<u>21</u>	\$ 214	<u>17</u>	\$ 817	<u>1</u>	\$ 61
Original 2017 Tax Levy	\$	108,541	\$	391,523	\$	81,406
Adjustment to 2017 Tax Levy	116,077	224,618	418,705	810,228	87,058	168,464
TOTAL TO BE ACCOUNTED FOR		\$ 224,832		\$ 811,045		\$ 168,525
TAX COLLECTIONS:						
Prior Years	\$	214	\$	817	\$	61
Current Year	211,498	211,712	762,904	763,721	158,624	158,685
TAXES RECEIVABLE - MARCH 31, 2018		<u>\$ 13,120</u>		<u>\$ 47,324</u>		<u>\$ 9,840</u>
TAXES RECEIVABLE BY YEAR:						
2017		<u>\$ 13,120</u>		<u>\$ 47,324</u>		<u>\$ 9,840</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2018

	2017	2016	2015	2014
PROPERTY VALUATIONS:				
Land	\$ 39,818,623	\$ 28,674,577	\$ 8,551,142	\$ 6,336,441
Improvements	43,269,044	4,908,973		
Personal Property	329,553	59,010		
Exemptions	(3,196,663)	(6,751,096)	(2,420,720)	(2,414,601)
TOTAL PROPERTY VALUATIONS	\$ 80,220,557	\$ 26,891,464	\$ 6,130,422	\$ 3,921,840
TAX RATES PER \$100 VALUATION:				
Contract	\$ 1.01	\$ 1.140	\$ 0.10	\$ 0.39
Debt Service	0.21	0.085	0.00	0.00
Maintenance	0.28	0.275	1.40	1.11
TOTAL TAX RATES PER \$100 VALUATION	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50
ADJUSTED TAX LEVY*	\$ 1,203,310	\$ 403,373	\$ 91,955	\$ 58,829
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	94.16 %	100.00 %	100.00 %	100.00 %

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

Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on November 6, 2007.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2018

S E R I E S - 2 0 1 7

Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 50,000	\$ 131,139	\$ 181,139
2020	55,000	79,045	134,045
2021	55,000	77,945	132,945
2022	60,000	76,750	136,750
2023	65,000	75,374	140,374
2024	65,000	73,863	138,863
2025	70,000	72,172	142,172
2026	70,000	70,300	140,300
2027	75,000	68,250	143,250
2028	80,000	65,962	145,962
2029	85,000	63,445	148,445
2030	90,000	60,688	150,688
2031	90,000	57,762	147,762
2032	95,000	54,662	149,662
2033	100,000	51,348	151,348
2034	105,000	47,810	152,810
2035	110,000	44,047	154,047
2036	115,000	40,053	155,053
2037	125,000	35,732	160,732
2038	130,000	31,078	161,078
2039	135,000	26,175	161,175
2040	145,000	20,886	165,886
2041	150,000	15,208	165,208
2042	155,000	9,336	164,336
2043	165,000	3,176	168,176
2044			
	\$ 2,440,000	\$ 1,352,206	\$ 3,792,206

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2018

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$	\$ 182,105	\$ 182,105
2020	125,000	194,650	319,650
2021	130,000	188,913	318,913
2022	135,000	182,950	317,950
2023	135,000	176,875	311,875
2024	145,000	170,575	315,575
2025	150,000	163,937	313,937
2026	160,000	156,963	316,963
2027	165,000	150,887	315,887
2028	170,000	145,863	315,863
2029	175,000	140,687	315,687
2030	180,000	135,363	315,363
2031	190,000	129,337	319,337
2032	200,000	122,513	322,513
2033	210,000	115,337	325,337
2034	215,000	107,900	322,900
2035	225,000	100,200	325,200
2036	235,000	92,150	327,150
2037	245,000	83,750	328,750
2038	255,000	75,000	330,000
2039	265,000	65,900	330,900
2040	275,000	56,278	331,278
2041	290,000	46,038	336,038
2042	305,000	35,253	340,253
2043	315,000	24,015	339,015
2044	505,000	9,153	514,153
	\$ 5,400,000	\$ 3,052,592	\$ 8,452,592

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2018

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 50,000	\$ 313,244	\$ 363,244
2020	180,000	273,695	453,695
2021	185,000	266,858	451,858
2022	195,000	259,700	454,700
2023	200,000	252,249	452,249
2024	210,000	244,438	454,438
2025	220,000	236,109	456,109
2026	230,000	227,263	457,263
2027	240,000	219,137	459,137
2028	250,000	211,825	461,825
2029	260,000	204,132	464,132
2030	270,000	196,051	466,051
2031	280,000	187,099	467,099
2032	295,000	177,175	472,175
2033	310,000	166,685	476,685
2034	320,000	155,710	475,710
2035	335,000	144,247	479,247
2036	350,000	132,203	482,203
2037	370,000	119,482	489,482
2038	385,000	106,078	491,078
2039	400,000	92,075	492,075
2040	420,000	77,164	497,164
2041	440,000	61,246	501,246
2042	460,000	44,589	504,589
2043	480,000	27,191	507,191
2044	505,000	9,153	514,153
	<u>\$ 7,840,000</u>	<u>\$ 4,404,798</u>	<u>\$ 12,244,798</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2018

Description	Original Bonds Issued	Bonds Outstanding April 1, 2017
Harris County Municipal Utility District No. 502 Unlimited Tax Bonds - Series 2017	\$ 2,440,000	\$
Harris County Municipal Utility District No. 502 Unlimited Tax Bonds - Series 2018	5,400,000	<u> </u>
TOTAL	\$ 7,840,000	\$ <u> - 0 -</u>

Bond Authority:	<u>Tax Bonds</u>	<u>Road Bonds</u>	<u>Recreation Bonds</u>
Amount Authorized by Voters	\$ 169,190,000	\$ 73,750,000	\$ 14,800,000
Amount Issued	7,840,000	<u> </u>	<u> </u>
Remaining to be Issued	<u>\$ 161,350,000</u>	<u>\$ 73,750,000</u>	<u>\$ 14,800,000</u>

Debt Service Fund cash balance as of March 31, 2018: \$ 855,456

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 470,954

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		Bonds Outstanding March 31, 2018	<u>Paying Agent</u>
	Principal	Interest		
\$ 2,440,000	\$	\$	\$ 2,440,000	The Bank of New York Mellon Trust Company, N.A.
<u>5,400,000</u>			<u>5,400,000</u>	The Bank of New York Mellon Trust Company, N.A.
<u>\$ 7,840,000</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 7,840,000</u>	

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 211,713	\$ 73,817	\$ 102,404
Water Service	161,666	70,850	14,529
Wastewater Service	82,871	27,195	2,685
Water Authority Fees	150,621	64,432	3,290
Penalty and Interest	5,742	4,918	20,221
Tap Connection and Inspection Fees	287,865	206,880	58,290
Miscellaneous Revenues	9,429	9,044	1,349
TOTAL REVENUES	\$ 909,907	\$ 457,136	\$ 202,768
EXPENDITURES			
Professional Fees	\$ 142,719	\$ 102,348	\$ 117,175
Contracted Services	70,065	26,034	12,849
Purchased Water and Wastewater Services	463,725	252,500	91,680
Repairs and Maintenance	28,887	16,072	3,025
Other	186,289	116,561	40,987
TOTAL EXPENDITURES	\$ 891,685	\$ 513,515	\$ 265,716
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 18,222	\$ (56,379)	\$ (62,948)
OTHER FINANCING SOURCES (USES)			
Transfer In (Out)	\$ (9,800)	\$	\$
Developer Advances	85,000		105,000
TOTAL OTHER FINANCING SOURCES (USES)	\$ 75,200	\$ - 0 -	\$ 105,000
NET CHANGE IN FUND BALANCE	\$ 93,422	\$ (56,379)	\$ 42,052
BEGINNING FUND BALANCE (DEFICIT)	35,662	92,041	49,989
ENDING FUND BALANCE (DEFICIT)	\$ 129,084	\$ 35,662	\$ 92,041

See accompanying independent auditor's report.

Percentage of Total Revenues

2015		2014		2018		2017		2016		2015		2014	
\$	166,211	\$	2,361	23.3 %	16.1 %	50.5 %	97.1 %	6.2 %					
			2,520	17.8	15.5	7.2		6.7					
			465	9.1	5.9	1.3		1.2					
	4,779			16.6	14.1	1.6							
				0.6	1.1	10.0	2.8						
			32,450	31.6	45.3	28.7		85.8					
	245		27	1.0	2.0	0.7	0.1	0.1					
\$	171,235	\$	37,823	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %					
\$	90,053	\$	47,947	15.7 %	22.4 %	57.8 %	52.6 %	126.8 %					
	13,132		6,467	7.7	5.7	6.3	7.7	17.1					
			13,900	51.0	55.2	45.2		36.8					
	344		2,434	3.2	3.5	1.5	0.2	6.4					
	14,189		9,383	20.5	25.5	20.2	8.3	24.8					
\$	117,718	\$	80,131	98.1 %	112.3 %	131.0 %	68.8 %	211.9 %					
\$	53,517	\$	(42,308)	1.9 %	(12.3) %	(31.0) %	31.2 %	(111.9) %					
\$		\$											
\$	- 0 -	\$	- 0 -										
\$	53,517	\$	(42,308)										
	(3,528)		38,780										
\$	49,989	\$	(3,528)										

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
REVENUES			
Property/Contract Taxes	\$ 922,404	\$ 328,565	\$ 32,780
Penalty and Interest	4,452	1,013	
Miscellaneous Revenues	10,691	583	96
TOTAL REVENUES	\$ 937,547	\$ 330,161	\$ 32,876
EXPENDITURES			
Tax Collection Expenditures	\$ 19,111	\$ 11,172	\$ 216
Contractual Obligation	591,297	181,485	82,267
TOTAL EXPENDITURES	\$ 610,408	\$ 192,657	\$ 82,483
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 327,139	\$ 137,504	\$ (49,607)
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ 9,800	\$	\$
Proceeds From Issuance of Long-Term Debt	315,335		
TOTAL OTHER FINANCING SOURCES (USES)	\$ 325,135	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 652,274	\$ 137,504	\$ (49,607)
BEGINNING FUND BALANCE (DEFICIT)	158,655	21,151	70,758
ENDING FUND BALANCE (DEFICIT)	\$ 810,929	\$ 158,655	\$ 21,151
TOTAL ACTIVE RETAIL WATER CONNECTIONS	372	198	37
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	367	197	36

See accompanying independent auditor's report.

Percentage of Total Revenues

2015		2014		2018		2017		2016		2015		2014	
\$	180,144	\$	3,214	98.4 %	0.5	99.5 %	0.3	99.9 %	0.1	100.0 %	0.1	100.0 %	100.0 %
	106			1.1		0.2							
\$	180,250	\$	3,214	100.0 %		100.0 %		100.0 %		100.0 %		100.0 %	100.0 %
\$	115	\$		2.0 %		3.4 %		0.7 %		0.1 %			%
	92,950		46,248	63.1		55.0		250.2		51.6		1,439.0	
\$	93,065	\$	46,248	65.1 %		58.4 %		250.9 %		51.7 %		1,439.0 %	
\$	87,185	\$	(43,034)	34.9 %		41.6 %		(150.9) %		48.3 %		(1,339.0) %	
\$		\$											
\$	- 0 -	\$	- 0 -										
\$	87,185	\$	(43,034)										
	(16,427)		26,607										
\$	70,758	\$	(16,427)										
	- 0 -		- 0 -										
	- 0 -		- 0 -										

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2018

District Mailing Address - Harris County Municipal Utility District No. 502
c/o Smith, Murdaugh, Little & Bonham, L.L.P.
2727 Allen Parkway, Suite 1100
Houston, TX 77019

District Telephone Number - (713) 860-6400

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>March 31, 2018</u>	Expense Reimbursements for the year ended <u>March 31, 2018</u>	<u>Title</u>
Andrew Peeples	05/14 - 05/18 (Elected)	\$ 1,950	\$ 421	President
Catherine Munding	05/14 - 05/18 (Elected)	\$ 1,500	\$ 138	Vice President
Jordan Owens	05/16 - 05/20 (Elected)	\$ 750	\$ 120	Secretary
Ann Walker	05/14 - 05/18 (Elected)	\$ 1,950	\$ 157	Assistant Secretary
Kim Jochetz	05/16 - 05/20 (Elected)	\$ 750	\$ 29	Assistant Secretary

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

The submission date of the most recent District Registration Form was (TWC Sections 36.054 and 49.054): March 2, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on August 24, 2007. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2018**

Consultants:	Date Hired	Fees for the year ended March 31, 2018	Title
Smith, Murdaugh, Little & Bonham, L.L.P.	07/09/12	\$ 97,948 \$ 240,244	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	03/02/11	\$ 10,250 \$ 15,900	Audit Related Bond Related
F. Matuska, Inc.	09/28/07	\$ 10,653	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/02/11	\$ -0-	Delinquent Tax Attorney
Edminster, Hinshaw, Russ and Associates, Inc.	09/28/07	\$ 169,864	Engineer
RBC Capital Markets	09/28/07	\$ 103,983	Financial Advisor
Fran Matuska	09/28/07	\$ -0-	Investment Officer
Environmental Development Partners	11/28/11	\$ 239,551	Operator
Bob Leared Interests, Inc.	09/28/07	\$ 15,826	Tax Assessor/ Collector

See accompanying independent auditor's report.

FILING AFFIDAVIT

To: Texas Commission on Environmental Quality

Under the penalties of perjury, I certify that I have inspected the attached balance sheet, statement of receipts and disbursements, including the accompanying schedules and statements, and to the best of my knowledge and belief, they are a true, correct, and complete representation of the financial condition of:

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO 503 as of
(Name of District)

03-31-2018 I also certify that the above district has complied in full
(Date of Fiscal Year End)

with all filing of audits, affidavits, and financial reports requirements of Section 49.194 of the Texas Water Code by filing copies of this Annual Financial Report in the district's office, located at:

3200 SOUTHWEST FREEWAY STE 2600 HOUSTON TX 77027
(Address of District)

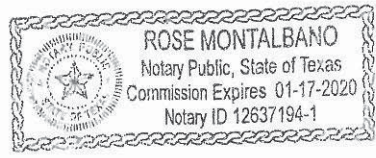
Patrick Carrigan (President)
(Typed Name and Title)

Patrick Carrigan 6-29-18
(Signature of Affiant) *(Date)*

Subscribed and Sworn to before me by this 29 day of June 2018

Rose Montalbano In and For HARRIS County, Texas

ROSE MONTALBANO 01-17-2020
(Typed Name of Notary) *(My Commission Expires On)*



District Name: HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO 503

MISCELLANEOUS DISCLOSURES AND MAILING INFORMATION
as of the District's Fiscal Year-End

A. Disclosures to comply with Rule 30 TAC 293.95(b)

(1) Was there any developer activity to prepare for residential or commercial development? "Developer activity" means construction performed or actions taken in preparation for construction (i.e., plans, permits) to provide services for or access to present or future residential or commercial water, sewer or drainage facilities. Yes No

If yes, have payments for these facilities been made by (an) other party (ies) on behalf of the district? Yes No

These payments are estimated to cumulatively be:

Organization Costs	<u>6000.</u>
Construction Costs	<u> </u>
Administration Cost	<u>180000.</u>
Total Costs	<u>186000.</u>

(2) Was the Board aware of any other types of contingent or actual liabilities (e.g., claims, lawsuits) which are not disclosed elsewhere in this report? Yes No

If yes, explain: _____

B. Disclosures to comply with V.T.C.A. Water Code §49.054(e) and §49.455(j). The Texas Commission on Environmental Quality must be notified of any changes in boundaries, board members, board terms, and addresses. Guidance for filing this information and a District Registration Form may be obtained by calling 512/239-4691.

C. Additional Information. This report should be sent to:
District Creation Review Team, MC-152
Texas Commission on Environmental Quality
P.O. Box 13087
Austin, TX 78711-3087
Phone Number: (512) 239-4691 Facsimile Number: (512) 239-6190

BALANCE SHEET – CASH BASIS

ASSETS

Cash on Hand	_____
Cash in Bank (Schedule A)	6550.
Investment (Schedule B)	_____
Total Cash and Investments (1)	6550.
Accrued Interest Receivable – Optional (Schedule B)	_____
Inventory	_____
General Fixed Assets	_____
Other Assets	_____
(Explain):	_____

TOTAL ASSETS (2) 6550.

LIABILITIES AND EXCESS

Notes Payable	_____
Refundable Deposits	_____
Developer Advances	_____
Other Liabilities	_____
(Explain):	_____

TOTAL LIABILITIES

Excess Assets Over Liabilities	6550.
Total Liabilities and Excess (3)	6550.

Note to Preparer: “TOTAL CASH AND INVESTMENTS” (1) must equal “CASH AND INVESTMENTS – End of Year “on the Statement of Receipts and Disbursement, page 5.

“TOTAL LIABILITIES AND EXCESS” (3) must equal “TOTAL ASETS” (2).

STATEMENT OF RECEIPTS AND DISBURSEMENTS – CASH BASIS

RECEIPTS

Service Revenues	_____
Tax Receipts	3866.
Penalty and Interest Received	_____
Interest Received on Investments	12.
Loans or Advances	40500.
All Other Receipts	1320.
(Explain):	_____

O/P REFUND

TOTAL RECEIPTS 45698.

LESS DISBURSEMENTS

Purchased Services for Resale	_____
Payroll	1648.
Legal, Accounting, or Contract Service	13034.
Supplies and Materials	_____
Maintenance	_____
Note Payments and Repayment of Advances	_____
All other Disbursements (Schedule C)	32294.
Total Disbursements	46976
Excess of Receipts Over (Under) Disbursements	<1278.>
Cash and Investments – Beginning of Year	7828.
Cash and Investments – End of Year	6550.

(See Note, Page 4)

Note to Preparer: In addition to all disbursements related to the purchase of consumable supplies and materials, certain assets of insignificant value may be considered consumable and accordingly recognized under the account classification "Supplies and Materials." Please refer to **EXPLANATION OF TERMS**, General Fixed Assets, pages 7 and 8 of this report, for additional clarification.

SCHEDULE 1 – CASH IN BANK (1)

Name of Bank	Account Number	Purpose of Account	Balance
BBVA COMPASS	2516149615	GENERAL OPERATIONS	1804.
BBVA COMPASS	6742686327	TAX COLLECTIONS	281.
WELLS FARGO	3745468896	TAX COLLECTIONS	4465.
TOTAL			6550.

SCHEDULE B – INVESTMENTS (2)

Type of Investment	Name of Bank	Certificate Number	Interest Rate	Maturity Date	Principal Balance	(Optional) Accrued Interest
TOTALS					0	0

SCHEDULE C – SCHEDULE OF ALL OTHER DISBURSEMENTS (3)

Description of Disbursements (4)	Amount
BANK SERVICE CHARGE	12.
INSURANCE	2992.
PAYMENT TO MASTER DISTRICT	29290.
TOTAL	32294.

- (1) Please refer to Explanation of Terms, Cash in Bank, page 7 of this report, for proper reporting.
- (2) Please refer to Explanation of Terms, Investments, page 8 of this report, for proper reporting of “Principal Balance” and “Accrued Interest.”
- (3) Please refer to Explanation of Terms, All Other Disbursements, page 7 of this report, for proper reporting of “All Other Disbursements.”
- (4) A description should be given for each type of transaction and the amount of payments attributable to this type of disbursement. It may not be necessary to list each transaction separately.

EXPLANTATION OF TERMS

All Other Disbursements - This classification should be used only for payments, which cannot be classified properly in the six remaining accounts listed on the Statement of Receipts and Disbursements. Schedule C, page 6, should be completed for any report, which utilizes the "All Other Disbursements" classification.

Cash Basis - The financial statements contained in this report are to be prepared on the cash basis of accounting. They are not intended to be in conformity with Generally Accepted Accounting Principles (GAAP). Only transactions involving the exchange of cash should be included in these statements. No liabilities should be recorded unless they arise from the transfer of money. Exceptions to this rule are listed in "Investments" and "General Fixed Assets" below. Receipts and disbursements should not be recorded until payment is made. For the purpose of the Statement of Receipts and Disbursements, movement of funds between checking accounts and investments should not be considered as receipts or disbursements.

Cash on Hand - Petty cash, checks, money orders, and bank drafts not on deposit.

Cash in Bank - (From Schedule A) - Cash deposited in the district's checking account(s). The reserves, restrictions, or limitations as to its availability should be so stated. The total amount shown on Schedule A must reflect the reconciled balance as of the fiscal year end and reported under the account classification "Cash in Bank" on the Balance Sheet.

Developer Advances - Amounts owed to a developer for cash placed in the district's account or otherwise paid to the district. However, amounts payable to a developer for which repayment is contingent upon a bond sale (or some other event) should not be included as a liability of the district. Please see the Miscellaneous Disclosures, page 3 of this report, for disclosure of these contingent liabilities.

Disbursements - All transactions involving the disbursement of the district's fund should be included in the disbursements section. Payments made on behalf of the district by a third party should not be listed as a disbursement for the purpose of this statement. See the Miscellaneous Disclosures, page 3, of this report, for disclosures of these payments.

Excess Assets Over Liabilities - The difference between "Total Assets" and "Total Liabilities." If liabilities exceed assets, this number should be shown as a negative amount.

General Fixed Assets - A fixed asset is one which the cost exceeds \$50 and has a productive life longer than one year. "Fixed" denotes the intent to continue use or possession; it does not indicate the immobility of the asset. An asset of cost not in excess of \$50 should be considered consumable and accordingly recognized under the account classification "Supplies and Materials" on the Statement of Receipts and Disbursements. A fixed asset purchased through the issuance of a short-term note payable should be reported as an asset at its full cost even though no cash transaction may have taken place. Likewise, the corresponding note payable should be reported in the liability section of the Balance Sheet. Fixed assets donated to the district by a

developer should be included as "General Fixed Assets" on the Balance Sheet. However, no amounts should be recorded on the Statement of Receipts and Disbursements for this type of transaction. The Credit offset to the fixed asset will be included in "Excess Assets over Liabilities" on the Balance Sheet.

Investments (From Schedule B) - List the types of investments (certificates of deposit, savings accounts, securities) which generate income in the form of interest. This should not include any amounts listed on Schedule A as "Cash in Bank." The total amount shown on Schedule B for "Principal Balance" must be reported under the account classification "Investments" on the Balance Sheet. At the option of the preparer, any interest earned on investments but not yet received may be reported as "Accrued Interest" on Schedule B and in the Asset section of the Balance Sheet. Under no circumstance should accrued interest be included in "Interest Received on Investments" under "Receipts" on page 5. "Interest Received on Investments" should include only amounts actually received during the fiscal year.

Inventories - The cost of materials and other items purchased for use during the fiscal year by which are not completely consumed by the end of the fiscal year.

Notes Payable - The total outstanding principal of short-term loans, which mature within one year of their issuance.

Other Liabilities - Only liabilities arising from the receipt of cash which cannot be properly classified in one of the other liability accounts should be listed in this classification along with a brief explanation of this liability. Accounts payable, accrued interest, and contracts payable should not be listed as liabilities in this report.

Receipts - All transactions involving the receipt of cash during the fiscal year should be included in the Receipts section. Only those amounts actually received during the fiscal year should be included. Amounts received for which repayment is contingent upon a bond sale (or some other event) should be included here. (See "Developer Advances" above for treatment of the contingent liability.)

Refundable Deposits - This amount reflects a liability arising from the receipt of deposits from customers, which will be refunded to the customer at some future date, based on the terms and conditions of the deposit agreement.

Rounding Instructions - Please round to the nearest whole dollar amount. For example: \$467.50 should be rounded up to \$468 and \$3,678.49 should be rounded down to \$3,678.

APPENDIX C
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, 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 Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the 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 AGM. 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 AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

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 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 AGM 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 of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount 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 or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, AGM 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 AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, 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, (a) 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 and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100