

OFFICIAL STATEMENT DATED MARCH 4, 2020

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL AS TO THE VALIDITY OF THE BONDS AND TO THE EFFECT THAT INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME OF THE OWNERS OF THE BONDS FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER EXISTING STATUTES, REGULATIONS, PUBLISHED RULINGS, AND COURT DECISIONS, AND IS NOT INCLUDABLE IN MINIMUM TAXABLE INCOME OF AN INDIVIDUAL. SEE "LEGAL MATTERS" AND "TAX MATTERS" HEREIN FOR A DISCUSSION OF BOND COUNSEL'S OPINION.

The Bonds have been designated "Qualified Tax-Exempt Obligations" for financial institutions. SEE "TAX MATTERS – Qualified Tax Exempt Obligations."

NEW ISSUE – Book-Entry-Only

Standard and Poor's (Insured)..... "AA"

\$7,045,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502

(A political subdivision of the State of Texas located in Harris County, Texas)

UNLIMITED TAX BONDS, SERIES 2020

Dated: March 31, 2020

Due: September 1, as shown below

The Bonds described above (the "Bonds") will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. Principal of and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest accrues from March 31, 2020, and is payable on September 1, 2020, and each March 1 and September 1 thereafter until the earlier of maturity or redemption. Interest will be calculated on the basis of a 360-day year of twelve 30-day months.

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under 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 (September 1)	Principal Amount	Interest Rate (a)	Initial Reoffering Yield (b)	CUSIP Nos. (c) 41428E	Due (September 1)	Principal Amount	Interest Rate (a)	Initial Reoffering Yield (b)	CUSIP Nos. (c) 41428E
2021	\$145,000	4.000%	0.950%	DD6	2029 (d)	\$220,000	2.000%	1.500%	DM6
2022	155,000	4.000%	0.970%	DE4	2030 (d)	230,000	2.000%	1.700%	DN4
2023	165,000	4.000%	1.000%	DF1	2031 (d)	240,000	2.000%	1.800%	DP9
2024	170,000	4.000%	1.050%	DG9	2032 (d)	250,000	2.000%	1.900%	DQ7
2025	180,000	3.250%	1.100%	DH7	2033 (d)	265,000	2.000%	2.000%	DR5
2026 (d)	190,000	2.000%	1.200%	DJ3	2034 (d)	280,000	2.000%	2.050%	DS3
2027 (d)	200,000	2.000%	1.300%	DK0	2035 (d)	290,000	2.000%	2.100%	DT1
2028 (d)	210,000	2.000%	1.400%	DL8					

\$625,000 Term Bonds due September 1, 2037 (d) (e) Interest Rate 2.000% (a) Initial Reoffering Yield 2.150% (b) CUSIP No. 41428EDV6

\$695,000 Term Bonds due September 1, 2039 (d) (e) Interest Rate 2.000% (a) Initial Reoffering Yield 2.190% (b) CUSIP No. 41428EDX2

\$765,000 Term Bonds due September 1, 2041 (d) (e) Interest Rate 2.125% (a) Initial Reoffering Yield 2.250% (b) CUSIP No. 41428EDZ7

\$840,000 Term Bonds due September 1, 2043 (d) (e) Interest Rate 2.250% (a) Initial Reoffering Yield 2.300% (b) CUSIP No. 41428EEB9

\$930,000 Term Bonds due September 1, 2045 (d) (e) Interest Rate 2.250% (a) Initial Reoffering Yield 2.350% (b) CUSIP No. 41428EED5

- (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 97.00% of par, plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 2.346321%.
- (b) The initial reoffering yields on the Bonds are established by, and are the sole responsibility of the Initial Purchaser, as defined herein, and may subsequently be changed.
- (c) CUSIP numbers have been assigned to the Bonds by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the Bonds.
- (d) Bonds maturing on September 1, 2026, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions." The yield on Bonds maturing on and after September 1, 2026, is calculated to the lower of yield to redemption or maturity.
- (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 September 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions."

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

The Bonds are offered when, as and if issued, subject to approval of legality by the Attorney General of the State of Texas and by Smith, Murdaugh, Little & Bonham, LLP, Bond Counsel, Houston, Texas. Certain legal matters will be passed on for the District by Norton Rose Fulbright US LLP, Houston, Texas, as Disclosure Counsel. Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about March 31, 2020.

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 or the Initial Purchaser.

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 an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, resolutions, contracts, audits, and engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, upon payment of duplication costs.

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

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 B - Specimen Municipal Bond Insurance Policy”.

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OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. Particularly, the reader should refer to indicated sections for more complete information on the discussed topic.

The District.....	Harris County Municipal Utility District No. 502 (the “District”), a political subdivision of the State of Texas, created by an order of the Texas Commission on Environmental Quality (“TCEQ or “Commission”), dated August 16, 2007, is located approximately 24 miles northwest of the central business district of Houston, Texas, south of the intersection of SH-290 and Barker-Cypress Road. The District is located within the extra-territorial jurisdiction (“ETJ”) of the City of Houston and lies wholly within Harris County, Texas. The acreage of the District is 882.75 acres of land. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code, as amended, and other general laws of Texas applicable to municipal utility districts. See “THE DISTRICT.”
Towne Lake	The District is one of four municipal utility districts (namely Harris County Municipal Utility Districts Nos. 500, 501, 502 and 503) collectively comprising approximately 2,112 acres referred to herein as the Service Area or Towne Lake. The District, Harris County Municipal Utility District No. 500 (“MUD 500”), Harris County Municipal Utility District No. 501 (“MUD 501”), and Harris County Municipal Utility District No. 503 (“MUD 503”), (collectively or individually referred to as “Participant(s)”) have executed the Master District Contract (defined herein) with the Master District (defined herein) as Participants and each has obtained the approval of the Master District Contract from its voters at an election held within its boundaries. See “THE SYSTEM-The Master District Contract” and “THE DEVELOPER.”
The Developer	The principal developer of land within Towne Lake is CW SCOA West, L.P. See “THE DEVELOPER.”
Status of Development...	To date, 396.16 acres in the District have been developed as 1,158 lots. As of February 1, 2020, there were 661 occupied homes, 67 unoccupied homes, 69 homes under construction and 361 vacant lots.
Water and Wastewater...	Harris County Municipal Utility District No. 500 (the “Master District”), as the provider of regional water, sanitary sewer, drainage, park, road and other facilities necessary to serve the Service Area, including the District (hereinafter collectively referred to as the “Master District Facilities”), has contracted with the District to construct and provide service from the Master District Facilities. The Master District owns and operates the Master District Facilities. The District provides internal water distribution, wastewater collection and drainage, park, road and other facilities necessary to serve the District, within its boundaries. See “THE SYSTEM - The Master District Contract,” “Master District Facilities” and “RISK FACTORS - Contract Tax.”
The Bonds.....	\$7,045,000 Harris County Municipal Utility District No. 502 Unlimited Tax Bonds, Series 2020 (the “Bonds”) are issued pursuant to an order of the District’s Board of Directors (the “Bond Order”). The Bonds are serial bonds and term bonds as shown on the cover page hereof, in the aggregate principal amount of \$7,045,000. Bonds maturing at the option of the District, in whole or from time to time in part, on or after September 1, 2026, are subject to redemption and payment prior to their scheduled maturities on September 1, 2025, and on any date thereafter. The term bonds are subject to mandatory redemption as provided herein. See “THE BONDS – Redemption Provisions.” The Bonds are offered in fully registered form in integral multiples of \$5,000 principal amount. See “THE BONDS.”
Qualified Tax-Exempt Obligations	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and represents that the total amount of tax-exempt bonds, including the Bonds, issued by it during calendar year 2020 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS - Qualified Tax-Exempt Obligations.”

Source of Payment.....	<p>Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property within the District. (See “THE BONDS - Source of Payment”). The Bonds are obligations of the District, and are not obligations of the State of Texas, Harris County, the City of Houston, Texas, the Master District, or any entity other than the District in its capacity as a Participant.</p> <p>The Bonds are not contract revenue bonds and, accordingly, proceeds collected by the Master District pursuant to the Master District Contract will not be available to pay debt service on the Bonds.</p>
Book-Entry-Only	The Bonds are initially issuable in book-entry-only form and, when issued, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, which will act as securities depository. Beneficial owners of the Bonds will not receive physical delivery of bond certificates. See “BOOK-ENTRY-ONLY SYSTEM.”
Authorized but Unissued Bonds	The voters of the District authorized the issuance of \$169,190,000 in bonds for water, sewer and drainage purposes and the refunding of such bonds. After the issuance of the Bonds, \$149,805,000 of such bonds will remain authorized but unissued. The voters of the District have also authorized the issuance of \$14,800,000 in recreational facility bonds and the refunding of such bonds, and \$73,750,000 in road bonds and the refunding of such bonds. The voters of the District may, in the future authorize the issuance of additional bonds. See “THE BONDS - Issuance of Additional Debt - Generally” and “- Water, Sewer and Drainage and Fire-Fighting Facilities.”
Authority for Issuance	The Bonds are issued pursuant to the terms and provisions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an election held in the District and an order of the TCEQ.
Payment Record.....	The Bonds are the fourth installment of bonds issued by the District. The District previously has issued \$12,340,000 principal amount of Unlimited Tax Bonds, \$12,110,000 of which remain 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. See “SELECTED FINANCIAL INFORMATION - Total Outstanding Bonds.”
Municipal Bond Insurance.....	<p>It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) will assign its municipal bond rating of “AA” 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 RATING” and “MUNICIPAL BOND INSURANCE”).</p> <p>Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. 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 appendix to this Official Statement.</p> <p>See “MUNICIPAL BOND INSURANCE.”</p>
Use of Proceeds	The proceeds of the Bonds will be used to finance the: (1) WSD to Serve Towne Lake, Section 46; (2) WSD to Serve Towne Lake, Section 47; (3) WSD to Serve Towne Lake, Section 50; (4) WSD to Serve Towne Lake, Section 51; (5) WSD to Serve Towne Lake, Section 52; (6) WSD to Serve Towne Lake, Section 49; (7) Lift Station No. 3 Northeast; (8) Engineering and Geotechnical Fees; (9) Storm Water Compliance; (10) Harris County Financial Surety; (11) Land Acquisition Costs; (12) to pay off the District’s Bond Anticipation Note, Series 2019; and (13) costs related to the issuance of the Bonds. See “SOURCES AND USES OF FUNDS.”

Legal Opinion	Smith, Murdaugh, Little & Bonham, LLP, Houston, Texas, Bond Counsel.
Engineer.....	Edminster, Hinshaw, Russ and Associates, Inc., Houston, Texas.
Financial Advisor	RBC Capital Markets, LLC, Houston, Texas.
Disclosure Counsel	Norton Rose Fulbright US LLP, Houston, Texas.
Paying Agent	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

THE BONDS INVOLVE CERTAIN RISK FACTORS, AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THE ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”

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SUMMARY OF SELECTED FINANCIAL INFORMATION

2019 Certified Taxable Assessed Valuation	\$274,217,878 (a)
Estimated Taxable Assessed Valuation at January 1, 2020	\$396,880,579 (b)
Direct Debt Outstanding (including the Bonds)	\$19,155,000
Estimated Overlapping Debt	<u>44,915,285</u>
Total	\$64,070,285
Direct Debt Ratios:	
As a percentage of 2019 Certified Taxable Assessed Valuation	6.985%
As a percentage of Estimated Taxable Assessed Valuation at January 1, 2020	4.826%
Direct and Overlapping Ratios:	
As a percentage of 2019 Certified Taxable Assessed Valuation	23.365%
As a percentage of Estimated Taxable Assessed Valuation at January 1, 2020	16.143%
General Fund Balance (as of January 9, 2020)	\$756,254
Capital Projects Fund (as of January 9, 2020)	\$790,324
Debt Service Fund (as of January 9, 2020)	\$1,232,626
Contract Tax Fund (as of January 9, 2020)	\$2,119,911
2019 Tax Rate	
Maintenance & Operations	\$0.27
Debt Service Tax Rate	\$0.35
Contract Tax	<u>\$0.88</u>
Total	\$1.50
Average Annual Debt Service Requirements (2020/2045) ("Average Annual Requirement")	\$1,062,935
Maximum Annual Debt Service Requirements (2043) ("Maximum Annual Requirement")	\$1,250,950
Tax rate required to pay Average Annual Requirement based upon:	
2019 Certified Taxable Assessed Valuation at 95% collections	\$0.41
January 1, 2020 Estimated Taxable Assessed Valuation at 95% collections	\$0.29
Tax rate required to pay Maximum Annual Requirement based upon:	
2019 Certified Taxable Assessed Valuation at 95% collections	\$0.49
January 1, 2020 Estimated Taxable Assessed Valuation at 95% collections	\$0.34
Status of Development as of February 1, 2020	
Single Family Homes – Occupied	661
Single Family Homes – Vacant	67
Under Construction	69
Vacant Lots	361
Total	1,158
Estimated District Population (c)	2,313 (c)

(a) The 2019 Certified Taxable Assessed Value includes the current certified portion as provided by Harris County Appraisal District ("HCAD"), as of Supplement 05. See "TAXING PROCEDURES."

(b) Provided by HCAD for information purposes only, this amount is an estimate of the value of all taxable property located within the District as of January 1, 2020, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2019, through December 31, 2019. Moreover, this estimate is prior to any protests and the ultimate Assessed Valuation of any improvements added from January 1, 2019, through December 31, 2019, which will be placed on each Participant's 2020 tax roll, may vary significantly from such estimate once the HCAD Review Board certifies the value thereof in 2019. See "TAXING PROCEDURES."

(c) Based upon 3.5 residents per occupied single-family residential home.

OFFICIAL STATEMENT

relating to

\$7,045,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502

(A political subdivision of the State of Texas located within Harris County, Texas)

Unlimited Tax Bonds

Series 2020

INTRODUCTION

The Official Statement provides certain information in connection with the issuance of the Harris County Municipal Utility District No. 502 (the “District”) Unlimited Tax Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to the Constitution and laws of the State of Texas, particularly Chapters 49 and 54, Texas Water Code, an order of the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”), an election held within the District, and pursuant to an order (the “Bond Order”), adopted by the Board of Directors of the District, a political subdivision of the State of Texas located within the extraterritorial jurisdiction of the City of Houston, Texas in Harris County, Texas.

The Official Statement includes descriptions of the Bonds, the Bond Order, and certain information about the District and its financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon request.

RISK FACTORS

General

The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or the Master District or any entity other than the District. The Bonds are payable from a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. See “THE BONDS - Source of Payment.” The investment quality of the Bonds depends on the ability of the District to collect from the property owners all taxes levied against their property or, in the event of foreclosure, the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. See “Registered Owners’ Remedies” and “Tax Collections” below.

The Bonds are not Contract Revenue Bonds and, accordingly, proceeds collected by the District pursuant to the Master District Contract will not be available to pay debt service on the Bonds. See “THE BONDS - Source of Payment.”

Factors Affecting Taxable Values and Tax Payments

Developer’s Obligations to the District: There is no commitment by or legal requirement of the Developer, or any other landowner in the District, to proceed at any particular rate or according to any specified plan with the development of land in the District. Moreover, there is no restriction on any landowner’s right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of future construction activity in the District. Failure to construct taxable improvements on developed tracts would restrict the rate of growth of taxable values in the District and result in higher tax rates. See “THE DISTRICT – Status of Development” and “THE DEVELOPER.”

Maximum Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Certified Taxable Assessed Valuation of the District is \$274,217,878, and the Estimated Taxable Assessed Valuation at January 1, 2020, is \$396,880,579 (see “SELECTED FINANCIAL INFORMATION”). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$1,250,950 (2043), and the Average Annual Debt Service Requirement, on a calendar year basis, will be \$1,062,935 (2020 through 2045, inclusive). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation and no use of funds on hand, a debt service tax rate of \$0.49 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and a debt service tax rate of \$0.41 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. Assuming no increase or decrease from the Estimated Taxable Assessed Valuation at January 1, 2020, and no use of funds on hand, a debt service tax rate of \$0.34 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and a debt service tax rate of \$0.29 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. See

“DEBT SERVICE SCHEDULE” and “SELECTED FINANCIAL INFORMATION - Tax Adequacy for Debt Service.” Property within the District also is subject to taxes levied by other political subdivisions. See “SELECTED FINANCIAL INFORMATION – Estimated Overlapping Debt Statement.”

Contract Tax

The Master District provides certain water, sanitary sewer, drainage, parks, roads and other facilities (collectively, the “Master District Facilities”) necessary to serve the Towne Lake development, including the District, in its capacity as a Participant. By execution of the Contract for Financing, Operation, and Maintenance of Regional Facilities, as amended (the “Master District Contract”), all of the municipal utility districts in Towne Lake that have entered into the Master District Contract (namely, Harris County Municipal Utility District Nos. 500, 501, 502 and 503), are 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 “Contract Revenue Bonds”) based upon the certified gross assessed valuation of each district. The principal amount of Contract Revenue Bonds outstanding is \$125,650,000. The Master District is authorized to issue Contract Revenue Bonds in the principal amount of \$754,660,000 for water, sewer, and drainage facilities and the refunding of such bonds, in the principal amount of \$64,550,000 for recreational facilities and refunding of such bonds, and in the principal amount of \$350,600,000 for roads and refunding of such bonds. The District is obligated to pay its pro rata share of debt service on the Contract Revenue Bonds from the proceeds of ad valorem taxes levied by the District for such purpose (the “Contract Tax”) or from any other lawful source of District income. See “SELECTED FINANCIAL INFORMATION - Estimated Overlapping Debt Statement” and “SELECTED FINANCIAL INFORMATION - Contract Tax.” According to representatives of the Developer, with respect to funds advanced by the Developer to date, the Master District owes the Developer approximately \$3,050,000 plus interest for funds heretofore advanced to or on behalf of the Master District.

Tax Collections

The District’s ability to make debt service payments on the Bonds may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court’s stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer’s right to redeem the property within two years of foreclosure. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay or impede any attempt by the District to collect delinquent ad valorem taxes against such taxpayer.

Registered Owners’ Remedies

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

The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners’ Rights

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owners’ remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses

the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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

Marketability

The District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of other bonds issued by more traditional issuers as such bonds are more generally bought, sold, or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

After the issuance of the Bonds, the District will have the right to issue the remaining \$149,805,000 authorized but unissued water, sewer and drainage unlimited tax bonds for water, sewer and drainage purposes and the refunding of such bonds and the right to issue such additional bonds as may hereafter be approved by both the Board and voters of the District. All of the remaining bonds described above which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The District also has the right to issue bond anticipation notes and revenue bonds without voter approval. The District is also authorized to issue \$14,800,000 in recreational facility bonds including the refunding of such bonds, and \$73,750,000 in road bonds including the refunding of such bonds. If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See "THE BONDS - Issuance of Additional Debt - Generally" and "- Water, Sewer and Drainage and Fire-Fighting Facilities."

According to representatives of the Developer, following the issuance of the Bonds, and with respect to funds advanced by the Developer to date, the Developer will have \$1,775,000 in remaining reimbursements due from the District. If additional development occurs in the District in the future and the Developer advances additional funds, the District has entered into an agreement with the Developer to reimburse such amounts from the proceeds of future bond issues, subject to TCEQ approval of each bond issue, if applicable.

Continuing Compliance with Certain Covenants

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

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 TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston Galveston area ("HGB area")—Harris, Galveston, Harris, 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, 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, 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 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 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 "marginal" nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2021. 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.

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) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

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 with 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 Environmental Protection Agency's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a municipal utility district's provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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 TCEQ renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required plans, as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Costs associated with these compliance activities could be substantial in the future.

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

In 2015, the EPA and 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 has been challenged in various jurisdictions, including the Southern District of Texas, causing significant uncertainty.

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. The District may be subject to additional restrictions and requirements including permitting requirements.

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 current 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 District 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 four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. Hurricane Harvey made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the District’s engineer, there was no interruption of water and sewer service during or after the storm. According to the District’s engineer, the District’s system did not sustain any material damage from Hurricane Harvey.

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

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.

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.

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.

After January 1, 2020, a district may adopt an exemption for a portion of the value of property damaged by a declared national disaster based on the percentage of damage to the property.

THE BONDS

General

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

The Bonds will be dated March 31, 2020, and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. Interest on the Bonds is payable September 1, 2020 and each March 1 and September 1 thereafter until maturity or prior redemption (each an "Interest Payment Date"). The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000.

Paying Agent/Registrar

Principal of and semiannual interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, (the "Paying Agent/Registrar"). Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Method of Payment of Principal and Interest

In the Bond Order, the Board has appointed the Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry-only system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners. If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Order.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are assessed, levied, and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax, without limit as to rate or amount, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

The Bonds are not Contract Revenue Bonds and, accordingly, proceeds collected by the Master District pursuant to the Master District Contract will not be available to pay debt service on the Bonds.

Authority for Issuance

The Bonds are issued pursuant to the authority of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54, Texas Water Code, as amended. The projects to be financed with the proceeds of the Bonds, and the issuance of the Bonds for such purpose, was approved by order of the TCEQ. Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of the Bonds. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

Funds

In the Bond Order, the Debt Service Fund is confirmed. The proceeds from all debt service taxes levied, assessed and collected for and on account of the Bonds shall be deposited, as collected, in such fund. Accrued interest on the Bonds and twelve (12) months of capitalized interest shall be deposited into the Debt Service Fund upon receipt.

Record Date

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

No Arbitrage

The District certifies that based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be “arbitrage bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations prescribed thereunder. Moreover, the District covenants that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds, and take such other and further actions and follow such procedures, including without limitation, calculating the yield on the Bonds as may be required so that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

Redemption Provisions

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2025, or any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed 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 September 1 in the years 2037, 2039, 2041, 2043 and 2045 (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 September 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:

Term Bonds Due September 1, 2037	
Mandatory Sinking Fund Redemption Date (September 1)	Principal Amount
September 1, 2036	\$305,000
September 1, 2037 (maturity)	320,000
Term Bonds Due September 1, 2039	
Mandatory Sinking Fund Redemption Date (September 1)	Principal Amount
September 1, 2038	\$340,000
September 1, 2039 (maturity)	355,000
Term Bonds Due September 1, 2041	
Mandatory Sinking Fund Redemption Date (September 1)	Principal Amount
September 1, 2040	\$375,000
September 1, 2041 (maturity)	390,000
Term Bonds Due September 1, 2043	
Mandatory Sinking Fund Redemption Date (September 1)	Principal Amount
September 1, 2042	\$410,000
September 1, 2043 (maturity)	430,000
Term Bonds Due September 1, 2045	
Mandatory Sinking Fund Redemption Date (September 1)	Principal Amount
September 1, 2044	\$455,000
September 1, 2045 (maturity)	475,000

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 Order. 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.

Transfer, Exchange and Registration

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 Order.

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

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.

Replacement of Bonds

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

Issuance of Additional Debt - Generally

The District may issue additional bonds necessary to provide improvements and facilities, subject to TCEQ approval. The TCEQ currently does not review and approve bonds issued to fund roads.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the District. See "RISK FACTORS" - Future Debt."

Issuance of Additional Debt - Water, Sewer and Drainage and Fire-Fighting Facilities

At a bond election held within the District on November 4, 2014, the voters authorized the issuance of \$169,190,000 principal amount of unlimited tax bonds for the purpose of constructing and acquiring water, sewer and drainage facilities and refunding of such bonds. After issuance of the Bonds, \$149,805,000 of unlimited tax bonds will remain authorized but unissued for water, sewer and drainage facilities and related refunding purposes. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional bonds or obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. See "RISK FACTORS - Future Debt."

The District also is responsible for the capital costs for its share of water, sewer and drainage facilities (the "Regional Water, Sewer and Drainage Facilities") serving the Master District Service Area. The Master District has issued and is expected to issue Contract Revenue Bonds for the purpose of financing the Regional Water, Sewer and Drainage Facilities and for refunding purposes. The District is required to pay for its share of the debt service requirements on the Contract Revenue Bonds issued by the Master District for Regional Water, Sewer and Drainage Facilities through the Contract Tax as described in "THE SYSTEM – The Master District Contract."

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

Financing Parks and Recreational Facilities

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. The District has developed and adopted a detailed park plan, and the qualified voters in the District have authorized the issuance of \$14,800,000 principal amount of unlimited tax bonds for park and recreational facilities and related refunding purposes.

Before the District could issue park/recreational bonds payable from taxes, the following actions would be required: (a) approval of the park/recreational projects and bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas.

The District also is responsible for the capital costs for its share of park/recreational facilities (the “Regional Park Facilities”) serving the Master District Service Area. The Master District is expected to issue Contract Revenue Bonds to finance the capital costs of designing and constructing the Regional Park Facilities. If the Master District issues

Contract Revenue Bonds for Regional Park Facilities, the District would pay for its share of the debt service requirements on the Contract Revenue Bonds issued for Regional Park Facilities through the Contract Tax as described in “THE SYSTEM-The Master District Contract.”

Financing Road Facilities

The District is authorized by statute and order of the TCEQ to design, acquire, construct, finance, and issue bonds for, arterial, collector and thoroughfare roads. The qualified voters in the District have authorized the issuance of \$73,750,000 principal amount of unlimited tax bonds for road facilities. Before the District could issue road bonds, approval of the bonds by the Attorney General of Texas would be required. The TCEQ does not currently have rules in place regulating the review and approval of road bond issues by districts.

The District is also responsible for its share of the capital costs for arterial, collector, and thoroughfare road facilities serving the Master District Service Area (the “Regional Road Facilities”). The Master District has issued and is expected to issue Contract Revenue Bonds to finance the capital costs of designing and constructing the Regional Road Facilities serving the Master District Service Area. The District is required to pay for its share of the debt service requirements on the Contract Revenue Bonds issued by the Master District for Regional Road Facilities through the Contract Tax as described in “THE SYSTEM – The Master District Contract.”

Consolidation

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

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston without the District’s consent, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements include an election in the area to be annexed which must be approved by a majority of those voting in an election held for that purpose. If the District is annexed, the City of Houston must assume the District’s assets and obligations (including the Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Remedies in Event of Default

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

execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds.

The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "RISK FACTORS - Registered Owners' Remedies" and "Bankruptcy Limitation to Registered Owners' Rights."

Legal Investment and Eligibility to Secure Public Funds in Texas

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

"(a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic." "(b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them."

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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 (as defined herein), 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 Order and summarized under "THE BONDS - Transfer, Exchange and Registration."

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 Order will be given only to DTC.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in Book-Entry-Only 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-Only System, and (ii) except as described above, payment or notices that are to be given to Registered Owners under the Bond Order will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District or the Initial Purchaser.

SOURCES AND USES OF FUNDS

The proceeds of the Bonds will be used to finance the: (1) WSD to Serve Towne Lake, Section 46; (2) WSD to Serve Towne Lake, Section 47; (3) WSD to Serve Towne Lake, Section 50; (4) WSD to Serve Towne Lake, Section 51; (5) WSD to Serve Towne Lake, Section 52; (6) WSD to Serve Towne Lake, Section 49; (7) Lift Station No. 3 Northeast; (8) Engineering and Geotechnical Fees; (9) Storm Water Compliance; (10) Harris County Financial Surety; (11) Land Acquisition Costs; (12) to pay off the District's Bond Anticipation Note, Series 2019; and (13) costs related to the issuance of the Bonds. See "SOURCES AND USES OF FUNDS."

Construction Costs	District's Share
A. Developer Contribution Items	
1. Towne Lake, Section 46 - WW & D	\$268,078
2. Towne Lake, Section 47 - WW & D	164,000
3. Towne Lake, Section 50 - WW & D	1,201,887
4. Towne Lake, Section 51 - WW & D	450,005
5. Towne Lake, Section 52 - WW & D	1,358,131
6. Towne Lake, Section 49 - WW & D	284,000
7. Lift Station No. 3 Northeast	725,343
8. Engineering and Geotechnical Fees (20.97% of Items 2-7)	878,917
9. Storm Water Compliance (Items 2-7)	217,495
10. Harris County Treasurer (Financial Surety) (Items 3-4)	4,310
11. Land Acquisition Costs	7,062
Total Developer Contribution Items	\$5,559,227
 B. Total District Items	 \$0
 TOTAL CONSTRUCTION COSTS	 \$5,559,227
 Non-Construction Costs	
A. Legal Fees (3.0%)	\$211,350
B. Fiscal Advisor Fees (1.25%)	82,950
C. Interest	
1. Capitalized Interest	159,124
2. Developer Interest (5.0%)	296,710
3. BAN Interest (1 year @ 3.0%)	112,800
D. Bond Discount	211,350
E. Bond Issuance Expenses	50,928
F. Bond Application Report	47,556
G. Bond Anticipation Note Issuance Fees (BAN)	95,221
H. Attorney General's Fee (0.10% or \$9,500 max.)	7,045
I. TCEQ Fee (0.25% of BIR)	17,613
J. Contingency	193,126
TOTAL NON-CONSTRUCTION COSTS	\$1,485,773
 TOTAL BOND ISSUE REQUIREMENT	 \$7,045,000

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

DEBT SERVICE

The Bonds						
Year	Outstanding Debt Service	Principal Due 9/1	Interest		Total Principal and Interest	New Debt Service
			Due 3/1	Due 9/1		
2020	\$712,520.00		\$0.00	\$67,627.55	\$67,627.55	\$780,147.55
2021	720,895.00	\$145,000.00	80,615.63	80,615.63	306,231.25	1,027,126.25
2022	713,430.00	155,000.00	77,715.63	77,715.63	310,431.25	1,023,861.25
2023	720,792.50	165,000.00	74,615.63	74,615.63	314,231.25	1,035,023.75
2024	722,182.50	170,000.00	71,315.63	71,315.63	312,631.25	1,034,813.75
2025	722,875.00	180,000.00	67,915.63	67,915.63	315,831.25	1,038,706.25
2026	723,500.00	190,000.00	64,990.63	64,990.63	319,981.25	1,043,481.25
2027	726,300.00	200,000.00	63,090.63	63,090.63	326,181.25	1,052,481.25
2028	730,425.00	210,000.00	61,090.63	61,090.63	332,181.25	1,062,606.25
2029	734,052.50	220,000.00	58,990.63	58,990.63	337,981.25	1,072,033.75
2030	735,972.50	230,000.00	56,790.63	56,790.63	343,581.25	1,079,553.75
2031	746,402.50	240,000.00	54,490.63	54,490.63	348,981.25	1,095,383.75
2032	745,922.50	250,000.00	52,090.63	52,090.63	354,181.25	1,100,103.75
2033	744,922.50	265,000.00	49,590.63	49,590.63	364,181.25	1,109,103.75
2034	753,322.50	280,000.00	46,940.63	46,940.63	373,881.25	1,127,203.75
2035	755,897.50	290,000.00	44,140.63	44,140.63	378,281.25	1,134,178.75
2036	762,682.50	305,000.00	41,240.63	41,240.63	387,481.25	1,150,163.75
2037	763,607.50	320,000.00	38,190.63	38,190.63	396,381.25	1,159,988.75
2038	768,466.25	340,000.00	34,990.63	34,990.63	409,981.25	1,178,447.50
2039	772,208.75	355,000.00	31,590.63	31,590.63	418,181.25	1,190,390.00
2040	779,507.50	375,000.00	28,040.63	28,040.63	431,081.25	1,210,588.75
2041	780,745.00	390,000.00	24,056.25	24,056.25	438,112.50	1,218,857.50
2042	786,083.75	410,000.00	19,912.50	19,912.50	449,825.00	1,235,908.75
2043	790,350.00	430,000.00	15,300.00	15,300.00	460,600.00	1,250,950.00
2044	263,606.25	455,000.00	10,462.50	10,462.50	475,925.00	739,531.25
2045		475,000.00	5,343.75	5,343.75	485,687.50	485,687.50
	\$18,176,670.00	\$7,045,000.00	\$1,173,512.50	\$1,241,140.05	\$9,459,652.55	\$27,636,322.55

THE DISTRICT

General

The District was created by order of the TCEQ, dated August 16, 2007. The District operates under Chapters 49 and 54 of the Texas Water Code, as amended, and other general laws of the State of Texas applicable to municipal utility districts.

Location and Acreage

The District is located approximately 24 miles northwest of the central business district of Houston, Texas, south of the intersection of SH-290 and Barker-Cypress Road. The District is located within the extra-territorial jurisdiction (ETJ) of the City of Houston and lies wholly within Harris County, Texas. The District is accessed via SH-290, exiting Barker-Cypress Road, and traveling south to Tuckerton Road, and north on Greenhouse Road or Towne Lake Parkway. The acreage of the District is 882.75 acres of land.

Authority

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of sanitary sewer; the control and diversion of storm water; the provision of arterial collection; and thoroughfare roads and improvements in aid thereof; and the provision of park and recreational facilities. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities.

The District is authorized to issue its bonds to finance its water, sanitary sewer and drainage facilities, with the approval of the Commission and the Attorney General of Texas, to the extent authorized by the District's qualified voters. After the issuance of the Bonds, the District will have \$149,805,000 authorized but unissued unlimited tax bonds for water, sewer, and drainage purposes and the refunding of such bonds payable from ad valorem taxes unlimited as to rate or amount. The District is also authorized to issue \$14,800,000 in unlimited tax bonds for park and recreational facilities and the refunding of such bonds, \$73,750,000 for road purposes and the refunding of such bonds.

Status of Development

The following chart more completely describes the status of residential development within the District as of February 1, 2020.

Subdivision Section	Platted Lots	Completed Homes Occupied	Completed Homes Unoccupied	Homes Under Construction	Vacant Lots
32	15	15	0	0	0
32RP	6	1	0	0	5
33	94	89	5	0	0
34	92	85	2	2	3
35	84	64	4	1	15
36	30	28	2	0	0
38	40	37	1	0	2
42	113	42	6	7	58
43	71	59	3	9	0
45	51	12	2	1	36
46	231	166	16	15	34
47	27	10	1	4	12
50	90	44	17	15	14
51	63	9	2	5	47
52	62	0	6	10	46
53	89	0	0	0	89
TOTAL	1,158	661	67	69	361

Homebuilders

The production homebuilders active within the District are Drees Homes, Ravenna Homes, Caldwell Homes, Village Builders, Plantation Homes, David Weekley, Newmark Homes, Scott Thomas Homes, Coventry Homes, Partners in Building, and Sitterle Homes.

Lot Sale Contracts

To date, the Developer has completed 17 sections and is selling lots in 16 separate sections within the development. Within the 17 sections, 728 homes have been constructed and 661 have been sold. The remaining 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 District and the corresponding builders under contract therein:

Section 32 – Drees Homes, Ravenna Homes

Section 32RP – Caldwell Homes

Section 33 – Village Builders, Plantation Homes

Section 34 – David Weekley, Newmark Homes, Scott Thomas Homes

Section 35 – Drees Homes, Ravenna Homes, Scott Thomas Homes, Coventry Homes, Newmark Homes

Section 36 – David Weekley

Section 38 – David Weekley, Partners in Building

Section 42 – Caldwell Homes, Sitterle Homes, David Weekley, Partners in Building

Section 43– Coventry Homes, Newmark Homes

Section 45 – Caldwell Homes

Section 46 – David Weekley, Newmark Homes, Village Builders, Plantation Homes, Ravenna Homes, Drees Homes

Lots within the following sections are sold out: Section 32.

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.

Future Development

To date the District, in its capacity as a Participant, has approximately 396.16 developed acres, approximately 34.32 acres under development, approximately 432.34 acres undeveloped but developable and approximately 20.14 acres that are undevelopable. The District cannot make any representation that any future development will occur within the District. In the event that future development does occur in the District, it is anticipated that the development costs will be financed through the sale of future bond issues.

THE DEVELOPER

Role of a Developer

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the land plan, designing the utilities and streets to be constructed, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the Commission, as well as gas, telephone and electric service) and selling commercial reserves to builders, developers, or other third parties. In certain instances, the developer will be required to pay up to thirty percent of the cost of constructing certain of the water, wastewater and drainage facilities in a municipal utility district pursuant to the rules of the Commission. The relative success or failure of a developer to perform such activities in development of the property within a municipal utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

The Developer

CW SCOA West L.P. ("CWSCOA 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 the development of more than 1,000 lots in several of Northwest Houston's communities including Rock Creek, Spring Creek Ranch, Wimbledon Falls, Willow Creek Ranch and Wincrest Falls. Caldwell Companies also develops commercial projects.

According to representatives of the Developer, following the issuance of the Bonds, and with respect to funds advanced by the Developer to date, the Developer will have \$1,775,000 in remaining reimbursements due from the District. If future development occurs in the District and the Developer advances additional funds, the District has entered into an agreement with the Developer to reimburse such amounts from the proceeds of future bond issues, subject to TCEQ approval of each bond issue.

Development Financing

Development of the 2,400-acre Towne Lake project (a portion of which is located outside the approximate 2,112-acre Master District Service Area) is provided through equity contributions of the partners totaling approximately \$39.4 million and a \$38 million revolving line of credit provided by Texas Capital Bank, acting as sole lender. Approximately \$14 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 will mature on April 8, 2019.

THE SYSTEM

The Master District Contract

The District, Harris County Municipal Utility District No. 500 (“MUD 500”, or the “Master District”), Harris County Municipal Utility District No. 501 (“MUD 501”), and Harris County Municipal Utility District No. 503 (“MUD 503”) (collectively or individually referred to as “Participant(s)”), have executed the Master District Contract with the Master District as Participants, and each has 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 issued by the Master District for the Master District Facilities based upon each Participant’s Certified Appraised Value, as defined in the Master District Contract, as a percentage of the Certified Appraised Value of all the Participants, calculated annually. Each Participant is obligated to pay its pro rata share of the Contract Revenue Bonds annual debt service payments from the proceeds of an annual ad valorem Contract Tax, without legal limit as to rate or amount, revenues derived from the operation of its water distribution and wastewater collection system or from any other legally available funds. The 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, the principal, interest and redemption requirements of the Contract Revenue Bonds and all amounts required to establish and maintain funds established under the Contract Revenue Bond documents entered into by the Master District. 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.

Pursuant to the Master District Contract, the Master District is authorized to issue Contract Revenue Bonds in the principal amount of \$754,660,000 for water, sewer, and drainage facilities and refunding of such bonds, \$660,800,000 remains unissued, in the principal amount of \$64,550,000 for recreational facilities and refunding of such bonds, \$64,550,000 of which remains unissued, and in the principal amount of \$350,600,000 for road facilities and refunding of such bonds, \$310,240,000 of which remains unissued. See “RISK FACTORS – Contract Tax.”

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 Master District Service Area. In the event that the Master District fails to meet its obligations under the Master District Contract to provide regional water, sanitary sewer and drainage facilities, each Participant has the right pursuant to the Master District Contract to design, acquire, construct, or expand such facilities to provide it with service, and convey such 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 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 to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses, and, if approved by all

Participants, to pay for capital costs of Master District Facilities. 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

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 expenses, and obligations pursuant to the Master District Contract, including its pro rata share of the Master District's debt service requirements and monthly charges. 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.

Master District 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 3,316 ESFCs for the Participants and 2,892 ESFC's are being served by the Water Supply Facilities.

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.

The Master District's Regional Water Re-Pump and Storage Facility No. 2 is constructed and currently waiting on electric hookup. The Regional Water Re-Pump and Storage Facility No. 2 has a 300,000 gallon capacity ground storage tank which can serve 1,500 ESFCs; combined with Water Plant No. One, the District can serve a total of 6,500 ESFCs.

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 3,316 ESFCs for the Participants and approximately 2,892 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 and lie below the 500-year flood elevation according to Federal Emergency management Agency Flood Insurance Rate map Nos. 48201CO405M and 48201CO415M. The District contains approximately 63 Acres within the 100-year flood plain. The areas within the 100-year flood plain that are developed, are 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. These areas are in the process of being removed from the 100-year flood plain by way of a LOM R-F submittal to FEMA. 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 \$8.75 per 1,000 gallons, effective January 1, 2018 ("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 District cannot predict the amount or level of fees and charges, which may be due to the Authority in the future. The District passes such fees through to customers through higher water rates. 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.

According to the District's Engineer, the District's internal Water Supply Facilities, Wastewater Facilities, and Storm-Water Drainage Facilities constructed by the District (the "Internal 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.

DISTRICT BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Authorized</u>	<u>Issued to Date</u>	<u>Amount Authorized but Unissued</u>
November 4, 2014	Water, Wastewater & Drainage and Refunding	\$ 169,190,000	\$19,385,000 (a)	\$ 149,805,000
November 4, 2014	Recreational Facilities and Refunding	\$ 14,800,000	\$ 0	\$ 14,800,000
November 4, 2014	Road Facilities and Refunding	\$ 73,750,000	\$ 0	\$ 73,750,000

(a) Includes the Bonds.

SELECTED FINANCIAL INFORMATION (Unaudited as of February 21, 2019)

2019 Certified Taxable Assessed Valuation	\$274,217,878 (a)
Estimated Taxable Assessed Valuation at 1/1/20	\$396,880,579 (b)
Direct Debt Outstanding (including the Bonds)	\$19,155,000
Ratio of Direct Debt to 2019 Certified Taxable Assessed Valuation	6.985%
Ratio of Direct Debt to Estimated Taxable Assessed Valuation at 1/1/20.....	4.826%

Area of District: 882.75 acres

- (a) The 2019 Certified Taxable Assessed Value includes the current certified portion as provided by HCAD, as of Supplement 05. See "TAXING PROCEDURES." The Certified Taxable Assessed Value is distinct and different from the Certified Appraised Value as defined by the Master District Contract. See "THE SYSTEM – 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 as of January 1, 2020, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2019, through December 31, 2019. Moreover, this estimate is prior to any protests and the ultimate Assessed Valuation of any improvements added from January 1, 2019, through December 31, 2019, which will be placed on each Participant's 2020 tax roll, may vary significantly from such estimate once the HCAD Review Board certifies the value thereof in 2019. See "TAXING PROCEDURES."

Total Outstanding Bonds

<u>Issued</u>	<u>Original Series</u>	<u>Original Amount</u>	<u>Outstanding Upon Issuance of the Bonds</u>
07/01/2017	2017	2,440,000	2,335,000
03/01/2018	2018	5,400,000	5,275,000
05/01/2019	2019	4,500,000	4,500,000
03/01/2020	2020	7,045,000 (a)	7,045,000
		19,385,000	19,155,000

(a) The Bonds.

Cash and Investment Balances (Unaudited at January 8, 2020)

General Fund	Cash and Temporary Investments	\$ 756,254
Capital Projects Fund	Cash and Temporary Investments	\$ 790,324
Debt Service Fund	Cash and Temporary Investments	\$1,232,626
Contract Tax Fund	Cash and Temporary Investments	\$2,119,911

Estimated Overlapping Debt Statement

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

Taxing Body (a)	Outstanding Gross Debt	As of	% Overlapping Gross Debt	Overlapping Gross Debt
Cypress-Fairbanks ISD	\$2,844,780,000	02/29/2020	0.350%	\$9,956,730
Harris Co	1,885,182,125	02/29/2020	0.040%	754,073
Harris Co Dept of Education	6,320,000	02/29/2020	0.040%	2,528
Harris Co Flood Control District	83,075,000	02/29/2020	0.040%	33,230
Harris Co Hosp District	57,300,000	02/29/2020	0.040%	22,002
Harris Co Toll Road	-	02/29/2020	0.040%	-
Lone Star College System	570,885,000	02/29/2020	0.130%	742,150
Port of Houston Authority	572,569,397	02/29/2020	0.040%	229,028
Harris County MUD No. 500 (Master District) (b)	125,650,000	02/29/2020	26.403%	33,175,544
TOTAL ESTIMATED OVERLAPPING NET DEBT				\$44,915,285

Harris County MUD No. 502 (c)	<u>\$19,155,000</u>
TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT	\$64,070,285

Ratio of Estimated Direct and Overlapping Debt to
2019 Certified Taxable Assessed Valuation 23.365%

Ratio of Estimated Direct and Overlapping Debt to
1/1/2020 Estimated Taxable Assessed Valuation 16.143%

Ratio of Estimated Direct and Overlapping Debt per Capita (d) \$27,700

- (a) Taxing jurisdictions with outstanding debt.
(b) Based on the District's pro rata share of Master District's debt service for calendar year 2019. See "THE SYSTEM – The Master District Contract."
(c) Includes the Bonds.
(d) Based upon 3.5 residents per occupied single-family residential home the estimated population is 2,313.

Overlapping Taxes for 2019

Overlapping Entity	2019 Tax Rate per \$100 Assessed Valuation
Cypress-Fairbanks ISD	\$1.37000
Harris County (a)	0.67650
Lone Star College System	0.10780
The District	1.50000
Total	\$3.65430

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

Classification of Assessed Valuation

The following represents the type of property comprising the 2015 through 2019 tax rolls:

	2019(a)	2018(b)	2017(b)	2016(b)	2015(b)
Land	\$97,741,052	\$95,248,554	\$49,484,116	\$28,742,199	\$8,549,563
Improvements	182,859,911	107,936,665	43,512,492	4,908,973	0
Personal Property	743,425	973,633	380,146	59,010	40,124
Exemptions	(7,126,510)	(6,468,280)	(3,372,396)	(6,817,296)	(2,447,797)
Total	\$274,217,878	\$197,690,572	\$90,004,358	\$26,892,886	\$6,141,890

(a) As provided by the HCAD as of Supplement 05, the breakout shown above does not include any portion of the uncertified appraisal roll or additional pending value. Does not exclude any optional exemptions granted by the District.

(b) From the District's Audited Financial Statements. Based upon adjusted tax at time of audit for the fiscal year in which the tax was levied.

Tax Collections

The following statement of tax collections reflects the historical tax collection experience of the District. Such summary has been prepared for inclusion herein based upon information from District audits and records of the District's tax assessor/collector. Reference is made to such audits and records for further and complete information. See "Classification of Assessed Valuation" above.

Tax Year	Assessed Valuation	Tax Rate	Adjusted Levy	Collections as of Tax Year End		Total Collections Through December 31, 2019	
				Amount	%	Amount	%
2014	\$3,921,840	\$1.50	\$58,486	\$58,486	100.00%	\$58,486	100.00%
2015	6,141,890	1.50	92,128	92,128	100.00%	92,128	100.00%
2016	26,892,886	1.50	404,015	404,015	100.00%	404,015	100.00%
2017	90,004,358	1.50	1,350,067	1,222,215	90.53%	1,349,959	99.99%
2018	197,690,572	1.50	2,965,360	2,937,289	99.05%	2,946,250	99.36%
2019	274,217,878	1.50	4,009,841	(a)	(a)	(a)	(a)

(a) In process of collection.

District Tax Rate

	2019	2018	2017	2016	2015
Maintenance & Operations:	\$0.270	\$0.190	\$0.280	\$0.275	\$1.400
Contract Tax:	0.8800	0.9500	1.0100	1.1400	0.1000
Debt Service:	<u>0.3500</u>	<u>0.3600</u>	<u>0.2100</u>	<u>0.0850</u>	<u>0.0000</u>
	\$1.500	\$1.500	\$1.500	\$1.500	\$1.500

Tax Rate Limitation

Debt Service: Unlimited (no legal limit as to rate or amount).

Maintenance: \$1.50 per \$100 Assessed Valuation.

Road Maintenance: \$0.25 per \$100 Assessed Valuation.

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See "District Tax Rate" and "Classification of Assessed Valuation" above, and "TAXING PROCEDURES."

Contract Tax

The Master District has the statutory authority and voter authorization of each of the Participants, including the District, to issue Contract Revenue Bonds. Each Participant's pro rata share of the debt service requirements on the Contract Revenue Bonds is determined by dividing each Participant's gross certified assessed value by the total of all the Participants' gross certified assessed valuation. 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 an annual unlimited Contract Tax, from revenues derived from the operation of its water distribution and wastewater collection system, or from any other legally available funds. The debt service requirement includes 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 bond documents pursuant to which the Master District's Contract Revenue Bonds are issued.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the bonds issued by the District. An election was held within the District on November 6, 2007, which authorized the levy of a maintenance tax not to exceed \$1.50/\$100 assessed valuation. At an election held within the District on November 4, 2008, voters authorized the Board to levy a maintenance tax for operations and maintenance costs of road facilities at a rate not to exceed \$0.25 per \$100 assessed valuation.

Additional Penalties

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

Principal Taxpayers

The following list of top ten principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2019 certified tax rolls of the District, which reflect ownership as of January 1, 2019. Ownership changes since January 1, 2019 are not known to the District.

Taxpayer	2018	2019	% of 2019
	Certified AV	Certified AV ^(a)	Certified AV
CW Scoa West LP	\$35,174,950	\$29,067,202	10.60%
Weekley Homes LLC	5,918,170	4,105,255	1.50%
Lennar Homes of Texas	1,423,855	3,708,757	1.35%
Newmark Homes Houston LLC	4,147,066	3,224,826	1.18%
Caldwell Homes Texas LP	2,908,725	3,175,271	1.16%
Avnee LP	2,339,283	2,491,772	0.91%
Partners In Building LP	2,346,809	2,022,923	0.74%
Ravenna Homes LLC	3,186,358	1,906,317	0.70%
Moreland Troy	N/A	1,031,169	0.38%
Bludworth Curt W	N/A	1,030,434	0.38%
MHI Partnership LTD	4,941,242	N/A	N/A
Sitterle Homes Houston LLC	2,412,355	N/A	N/A
Total	\$64,798,813	\$51,763,926	18.88%

(a) Does not include uncertified value, for certified values only.

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2019 Certified Taxable Assessed Valuation and Estimated Taxable Assessed Valuation at January 1, 2020, and utilize tax rates adequate to service the District's total proposed debt service requirements on the Bonds. See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments – Maximum Impact on District Tax Rates."

Average Annual Debt Service Requirements (2020 through 2045)	\$1,062,935.48
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\$0.41 Tax Rate on 2019 Certified Taxable Assessed Valuation of \$274,217,878 @ 95% collections produces	\$1,068,078.63
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\$0.29 Tax Rate on Estimated Taxable Assessed Valuation at January 1, 2020 \$396,880,579 @ 95% collections produces	\$1,093,406.00
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Maximum Annual Debt Service Requirements (2043)	\$1,250,950.00
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\$0.49 Tax Rate on 2019 Certified Taxable Assessed Valuation of \$274,217,878 @ 95% collections produces	\$1,276,484.22
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\$0.34 Tax Rate on Estimated Taxable Assessed Valuation at January 1, 2020 \$396,880,579 @ 95% collections produces	\$1,281,924.27
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OPERATING STATEMENT

Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's system. Such summary has been prepared by the Financial Advisor for inclusion herein, based upon information obtained from the District's audited financial statements for the fiscal year ending March 31. Reference is made to such statements for further and more complete information.

	Fiscal Year Ended March 31					
	2019(a)	2018(a)	2017(a)	2016(a)	2015(a)	2014(a)
REVENUES:						
Property Taxes	\$364,617	\$211,713	\$73,817	\$102,404	\$166,211	\$2,361
Water Service	217,057	161,666	70,850	14,529	-	2,520
Wastewater Service	156,899	82,871	27,195	2,685	-	465
Regional Water Authority Fees	202,196	150,621	64,432	3,290	-	-
Penalty and Interest	7,534	5,742	4,918	20,221	4,779	-
Tap Connection and Inspection Fees	314,660	287,865	206,880	58,290	-	32,450
Miscellaneous	<u>16,634</u>	<u>9,429</u>	<u>9,044</u>	<u>1,349</u>	<u>245</u>	<u>27</u>
TOTAL REVENUES	<u>\$1,279,597</u>	<u>\$909,907</u>	<u>\$457,136</u>	<u>\$202,768</u>	<u>\$171,235</u>	<u>\$37,823</u>
EXPENDITURES:						
Current Service Operations						
Professional Fees	\$122,233	\$142,719	\$102,348	\$117,175	\$90,053	\$47,947
Purchased and Contracted Services	132,783	70,065	26,034	12,849	13,132	6,467
Purchased Water and Wastewater Services	564,000	463,725	252,500	91,680	-	13,900
Repairs and Maintenance	56,929	28,887	16,072	3,025	344	2,434
Utilities	3,111	-	-	-	-	-
Other	<u>214,200</u>	<u>186,289</u>	<u>116,561</u>	<u>40,987</u>	<u>14,189</u>	<u>9,383</u>
TOTAL EXPENDITURES	<u>\$1,093,256</u>	<u>\$891,685</u>	<u>\$513,515</u>	<u>\$265,716</u>	<u>\$117,718</u>	<u>\$80,131</u>
OTHER FINANCING SOURCES/USES						
Transfers In (Out)	\$ (34,000)	\$ (9,800)	\$ -	\$ -	\$ -	\$ -
Developer Advances	<u>-</u>	<u>85,000</u>	<u>-</u>	<u>105,000</u>	<u>-</u>	<u>-</u>
	(34,000)	\$75,200	\$0	\$105,000	\$0	\$0
NET CHANGE IN NET FUND BALANCES	<u>\$152,341</u>	<u>\$93,422</u>	<u>(56,379)</u>	<u>\$42,052</u>	<u>\$53,517</u>	<u>(42,308)</u>
BEGINNING FUND BALANCE	<u>\$129,084</u>	<u>\$35,662</u>	<u>\$92,041</u>	<u>\$49,989</u>	<u>(3,528)</u>	<u>\$38,780</u>
ENDING FUND BALANCE	<u>\$281,425</u>	<u>\$129,084</u>	<u>\$35,662</u>	<u>\$92,041</u>	<u>\$49,989</u>	<u>(3,528)</u>

(a) From the District's audited annual financial reports.

MANAGEMENT

Board of Directors

The current directors of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Andrew Peebles	President	May 2022
Catherine Mundinger	Vice President	May 2022
James Spackman	Secretary	May 2020
John Suppatkul	Director	May 2020
Brian Thomas	Director	May 2022

Tax Assessor/Collector

Land and improvements in the District are being appraised for taxation by the Harris County Appraisal District. Bob Leared Interests Incorporated currently serves the District as Tax Assessor/Collector.

Operator of Water and Sewer Facilities

The District's water and sewer system is operated by Environmental Development Partners.

Bookkeeper

F. Matuska, Inc. acts as bookkeeper for the District.

Engineer

The consulting engineer for the District is Edminster, Hinshaw, Russ and Associates, Inc.

Bond Counsel/General Counsel

The District has engaged Smith, Murdaugh, Little & Bonham, LLP, Houston, Texas as general counsel to the District for matters unrelated to the Bonds and as bond counsel ("Bond Counsel") in connection with the issuance of the Bonds. See "LEGAL MATTERS."

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.

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, 2019 is included in "APPENDIX A" to this official Statement.

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State 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 the 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 District. 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 District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. For tax years 2019 and 2020 the District granted an exemption of \$5,000 for persons 65 years of age or older and certain disabled persons. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. See “SELECTED FINANCIAL INFORMATION – Classification of Assessed Valuation.”

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

Freeport Goods and Goods-in-Transit Exemptions: A “Freeport Exemption” applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A “Goods-in-Transit” Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption if 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. 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 not taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Harris County or the City of Houston may designate all or part of the District as a reinvestment zone. Thereafter, Harris County, the City of Houston, and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised 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 agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Generally, assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 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 market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous five (5) years. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition of 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

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

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 (as to those provisions discussed herein) of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

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

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

Developed Districts: Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, subject to certain homestead exemptions, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax

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

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

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

District Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "SELECTED FINANCIAL INFORMATION - Overlapping Taxes for 2019"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years for residential and agricultural property and six (6) months for commercial property and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. In addition, a person 65 or older may defer or abate a suit to collect delinquent taxes on the person's residence homestead. See "RISK FACTORS – General" and "– Tax Collections."

LEGAL MATTERS

Legal Proceedings

The District will furnish the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds. Such transcript will include a copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the levy of ad valorem taxes without limitation as to rate or amount. The District will also furnish the legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Texas Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without limitation as to rate or amount, against taxable property within the District and that interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes as further described in "TAX MATTERS" below. The opinion of Bond Counsel is expected to be reproduced on the back panel of the Bonds over a certification of the secretary of the Board of Directors of the District attesting that such legal opinions were dated as of the date of delivery of and payment for the Bonds and are true and correct copies of the original opinions. Errors or omissions in the printing of such legal opinion on the Bonds shall not affect the validity of the Bonds nor constitute cause for the failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds.

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 there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or non-encumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

No Material Adverse Change

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

TAX MATTERS

Opinion

Delivery of the Bonds is subject to delivery of the legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District, to the effect that (1) interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering their opinion, Bond Counsel will rely upon (a) the District's federal tax certificate and (b) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matter. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the District, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

Interest on the Bonds will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding \$175,000), of the taxpayer’s “alternative minimum taxable income,” if the amount of such alternative minimum tax is greater than the taxpayer’s regular income tax for the taxable year.

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

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

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution’s investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for “qualified tax-exempt obligations,” which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as “qualified tax-exempt obligations” and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District has designated the Bonds as “qualified tax-exempt obligations” and represents that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2020 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in “qualified tax-exempt obligations” (including the Bonds) during calendar year 2020.

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the “Initial Purchaser” or “Underwriter”) bearing the interest rates shown on the cover page hereof, at a price of 97.00% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 2.346321% as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

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 underwriter 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 sole responsibility of the Initial Purchaser.

THE PRICES AND OTHER TERMS RESPECTING 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 OFFERING 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.

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

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

MUNICIPAL BOND RATING

In connection with the sale of the Bonds, the Bonds have not been assigned an underlying rating, and the District does not believe it would have received an investment grade rating if formal application for a rating based on the District's own credit had been made.

Municipal Bond Insurance

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), has assigned its municipal bond rating of "AA" 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. ("AGM"). An explanation of the significance of such ratings may be obtained from S&P. These ratings reflect only the views of S&P, 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 in the sole judgment of S&P 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.

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix B 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 international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. 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 December 19, 2019, 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 November 7, 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 August 13, 2019, 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, 2019.

Capitalization of AGM

At December 31, 2019:

- The policyholders' surplus of AGM was approximately \$2,691 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$986 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 \$2,027 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 document 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: the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020).

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 "MUNICIPAL 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".

MUNICIPAL BOND INSURANCE RISK FACTORS

The District has applied for a municipal bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The following are risk factors relating to municipal 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 claim 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" 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

Consultants

In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor. Each consultant has consented to the use of the information provided by such firms.

The Engineer. The information contained in this Official Statement relating to engineering and to the description of the System has been provided by Edminster, Hinshaw, Russ and Associates, Inc. and has been included in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District & Tax Assessor/Collector. The information contained in this OFFICIAL STATEMENT relating to the historical certified taxable assessed valuations has been provided by the Harris County Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Harris County, including within the boundaries of the District. The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the District's assessed valuations and certain other historical data concerning tax rates and tax collections has been provided by Bob Leared Interests Incorporated and is included herein in reliance upon the authority of same as an expert in assessing property values and collecting taxes.

Auditor. The District's financial statements are audited by McCall Gibson Swedlund Barfoot PLLC, and the District's Audited Financial Statements as of March 31, 2019, have been included as "APPENDIX A."

Certification as to Official Statement

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

Updating of Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided,

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access ("EMMA") system. Prior to the sale of the Bonds, the District had not entered into a continuing disclosure agreement.

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 with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "SELECTED FINANCIAL INFORMATION," "DEBT SERVICE SCHEDULE," and "APPENDIX A" (the Audit). The District will update and provide this information to the MSRB 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 Order, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Specified Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders 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 (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations) 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 terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds

nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from EMMA

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 its EMMA internet portal at www.emma.msrb.org.

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.

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 502, as of the date shown on the first page hereof.

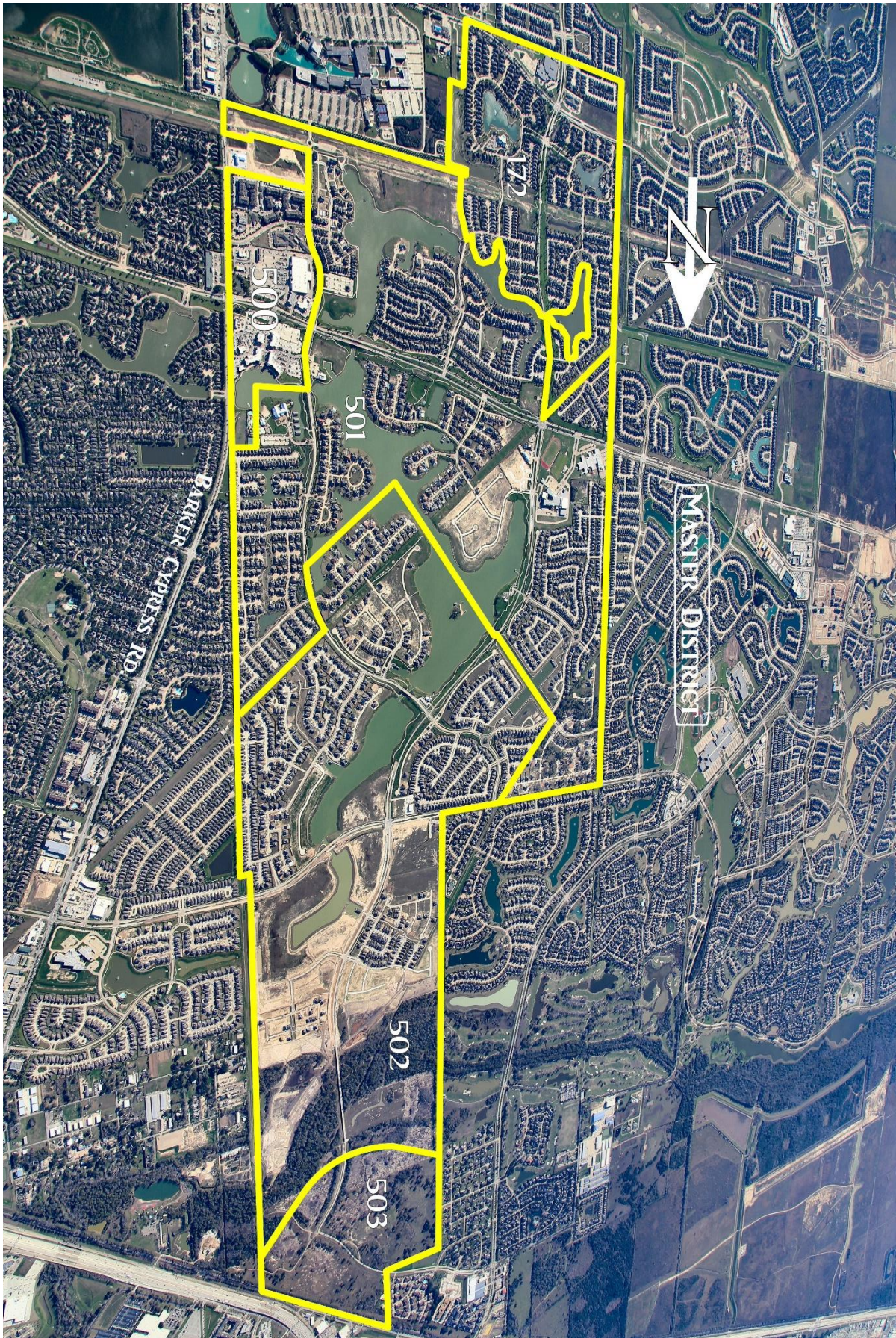
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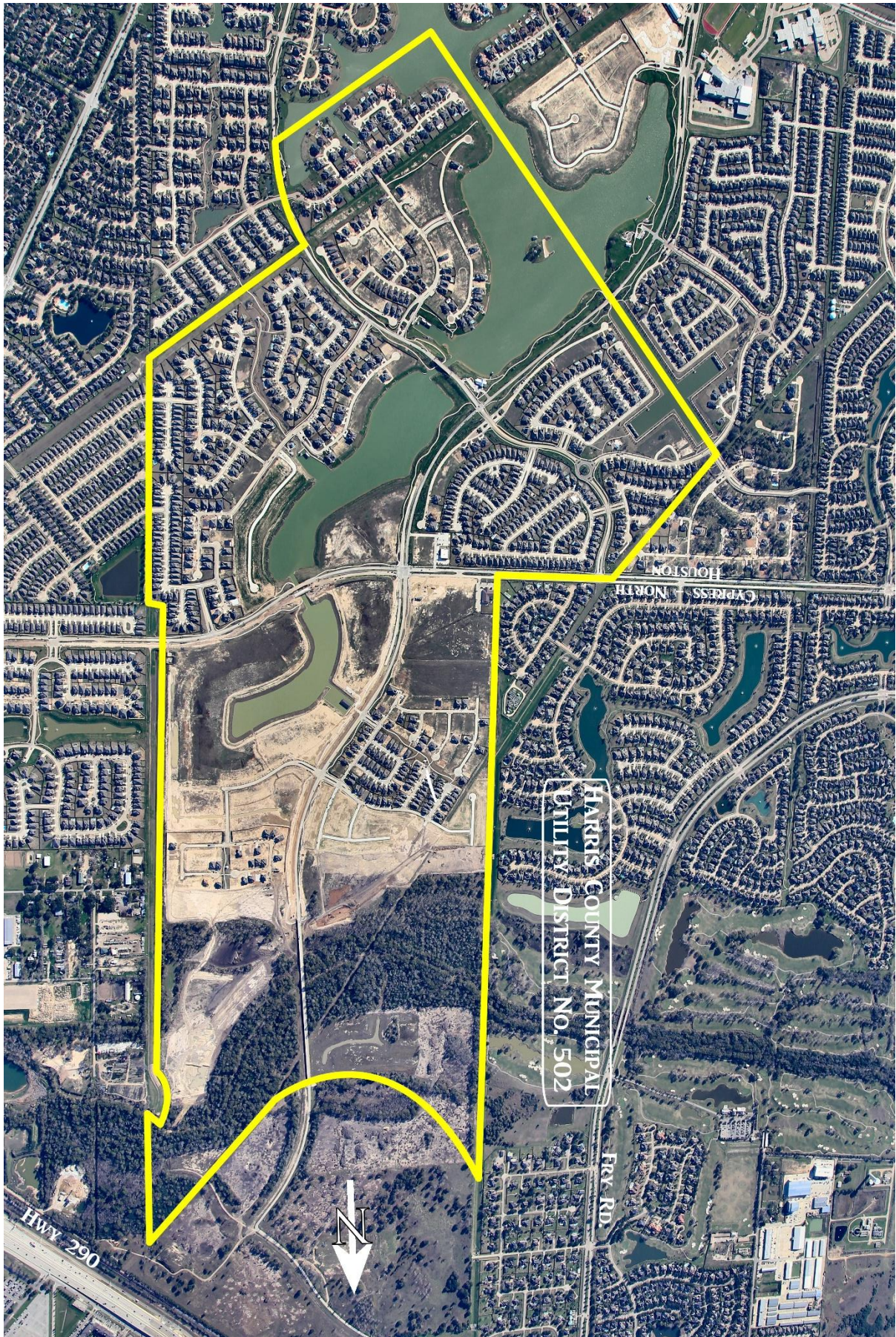
Andrew Peeples
President, Board of Directors
Harris County Municipal Utility District No. 502

/s/

James Spackman
Secretary, Board of Directors
Harris County Municipal Utility District No. 502

AERIAL PHOTOGRAPHS (January 2020)





PHOTOGRAPHS



Single-Family Home



Single-Family Home



Single-Family Home



Single-Family Home



Single-Family Home



Single-Family Home



Single-Family Home Under Construction



Single-Family Home Under Construction

APPENDIX A

Audited Financial Statements

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2019

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McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and 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 3, 2019

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

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, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position includes 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.

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, 2019

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). 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 \$62,582 as of March 31, 2019. A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 2,896,316	\$ 6,057,407	\$ (3,161,091)
Capital Assets (Net of Accumulated Depreciation)	10,301,732	8,132,228	2,169,504
Total Assets	<u>\$ 13,198,048</u>	<u>\$ 14,189,635</u>	<u>\$ (991,587)</u>
Due to Developer	\$ 2,628,674	\$ 7,076,683	\$ 4,448,009
Bonds and BAN Payable	10,279,415	7,883,001	(2,396,414)
Other Liabilities	227,377	200,889	(26,488)
Total Liabilities	<u>\$ 13,135,466</u>	<u>\$ 15,160,573</u>	<u>\$ 2,025,107</u>
Net Position:			
Net Investment in Capital Assets	\$ (2,100,909)	\$ (1,820,060)	\$ (280,849)
Restricted	1,951,105	813,531	1,137,574
Unrestricted	212,386	35,591	176,795
Total Net Position	<u>\$ 62,582</u>	<u>\$ (970,938)</u>	<u>\$ 1,033,520</u>

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

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 3,008,244	\$ 1,203,348	\$ 1,804,896
Charges for Services	890,812	683,023	207,789
Other Revenues	59,729	34,944	24,785
Total Revenues	<u>\$ 3,958,785</u>	<u>\$ 1,921,315</u>	<u>\$ 2,037,470</u>
Expenses for Services	<u>2,925,265</u>	<u>2,601,264</u>	<u>(324,001)</u>
Change in Net Position	\$ 1,033,520	\$ (679,949)	\$ 1,713,469
Net Position, Beginning of Year	<u>(970,938)</u>	<u>(290,989)</u>	<u>(679,949)</u>
Net Position, End of Year	<u>\$ 62,582</u>	<u>\$ (970,938)</u>	<u>\$ 1,033,520</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2019, totaled \$2,432,799, an increase of \$1,108,752.

The General Fund fund balance increased by \$152,341, primarily due to tax revenues and service revenues exceeding costs of operating and maintaining the District's facilities.

The Debt Service Fund fund balance increased by \$941,610, primarily due to the structure of the District's outstanding bond debt as well as the District's debt obligation to the Master District.

The Capital Projects Fund fund balance increased by \$14,801, primarily due to the sale of the Series 2018 Bond Anticipation Note which was used to reimburse a developer (see Note 12).

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$261,097 more than budgeted revenues primarily due to higher than anticipated service, property tax, and investment revenues. Actual expenditures were \$135,216 more than budgeted expenditures primarily due to higher than anticipated solid waste disposal costs, purchased services, and maintenance costs.

CAPITAL ASSETS

Capital assets as of March 31, 2019, total \$10,301,732 (net of accumulated depreciation) and include the water, wastewater and drainage systems. Capital asset additions included Lift Stations No. 3 construction as well as water, wastewater and drainage facilities serving Towne Lake, Sections 43 and 47.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets, Net of Accumulated Depreciation:			
Water System	\$ 1,916,077	\$ 1,618,662	\$ 297,415
Wastewater System	4,283,975	2,988,522	1,295,453
Drainage System	4,101,680	3,525,044	576,636
Total Net Capital Assets	<u>\$ 10,301,732</u>	<u>\$ 8,132,228</u>	<u>\$ 2,169,504</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019

LONG-TERM DEBT

As of March 31, 2019, the District had bond debt payable of \$7,790,000. The changes in debt position of the District during the year ended March 31, 2019, are summarized as follows:

Bond Debt Payable, April 1, 2018	\$ 7,840,000
Less: Bond Principal Paid	<u>50,000</u>
Bond Debt Payable, March 31, 2019	<u>\$ 7,790,000</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, 2019, 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, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash	\$ 342,168	\$ 1,587,369
Investments		213,238
Receivables:		
Property Taxes	37,574	249,685
Service Accounts	60,966	
Penalty and Interest on Delinquent Taxes		
Due from Other Funds	45,616	
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	<u>\$ 486,324</u>	<u>\$ 2,050,292</u>
LIABILITIES		
Accounts Payable	\$ 69,614	\$ 2,452
Accrued Interest Payable		
Due to Developers		
Due to Other Funds		45,616
Security Deposits	97,711	
Bond Anticipation Note Payable		
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	<u>\$ 167,325</u>	<u>\$ 48,068</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	<u>\$ 37,574</u>	<u>\$ 249,685</u>
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Contract Debt Service		844,985
Restricted for Debt Service		907,554
Unassigned	<u>281,425</u>	
TOTAL FUND BALANCES	<u>\$ 281,425</u>	<u>\$ 1,752,539</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 486,324</u>	<u>\$ 2,050,292</u>
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
\$ 92,975	\$ 2,022,512	\$	\$ 2,022,512
305,860	519,098		519,098
	287,259		287,259
	60,966		60,966
		6,481	6,481
	45,616	(45,616)	
		10,301,732	10,301,732
<u>\$ 398,835</u>	<u>\$ 2,935,451</u>	<u>\$ 10,262,597</u>	<u>\$ 13,198,048</u>
\$	\$ 72,066	\$	\$ 72,066
		57,600	57,600
		2,628,674	2,628,674
	45,616	(45,616)	
	97,711		97,711
		2,448,000	2,448,000
		180,000	180,000
		7,651,415	7,651,415
<u>\$ -0-</u>	<u>\$ 215,393</u>	<u>\$ 12,920,073</u>	<u>\$ 13,135,466</u>
<u>\$ - 0 -</u>	<u>\$ 287,259</u>	<u>\$ (287,259)</u>	<u>\$ - 0 -</u>
\$ 398,835	\$ 398,835	\$ (398,835)	\$
	844,985	(844,985)	
	907,554	(907,554)	
	281,425	(281,425)	
<u>\$ 398,835</u>	<u>\$ 2,432,799</u>	<u>\$ (2,432,799)</u>	<u>\$ - 0 -</u>
<u>\$ 398,835</u>	<u>\$ 2,935,451</u>		
		\$ (2,100,909)	\$ (2,100,909)
		1,951,105	1,951,105
		212,386	212,386
		<u>\$ 62,582</u>	<u>\$ 62,582</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, 2019

Total Fund Balances - Governmental Funds	\$	2,432,799
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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.		10,301,732
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levy became part of recognized revenue in the governmental activities of the District.		293,740
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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	\$ (2,628,674)	
	Accrued Interest Payable	(57,600)	
	BAN/Bonds Payable	<u>(10,279,415)</u>	<u>(12,965,689)</u>
Total Net Position - Governmental Activities		\$	<u>62,582</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. 502
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2019

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 364,617	\$ 2,426,652
Water Service	217,057	
Wastewater Service	156,899	
Water Authority Fees	202,196	
Penalty and Interest	7,534	15,234
Tap Connection and Inspection Fees	314,660	
Miscellaneous Revenues	16,634	8,889
TOTAL REVENUES	<u>\$ 1,279,597</u>	<u>\$ 2,450,775</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 122,233	\$ 1,714
Contracted Services	132,783	26,388
Purchased Water and Wastewater Service	564,000	
Repairs and Maintenance	56,929	
Depreciation		
Other	214,200	5,680
Capital Outlay		
Debt Service:		
Bond Anticipation Note Issuance Costs		
Bond Principal		50,000
Bond Interest		313,244
Contractual Obligation		1,146,139
TOTAL EXPENDITURES/EXPENSES	<u>\$ 1,093,256</u>	<u>\$ 1,543,165</u>
EXCESS (DEFICIENCY) OF REVENUES OVER		
EXPENDITURES/EXPENSES	<u>\$ 186,341</u>	<u>\$ 907,610</u>
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ (34,000)	\$ 34,000
Bond Anticipation Note Proceeds		
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (34,000)</u>	<u>\$ 34,000</u>
NET CHANGE IN FUND BALANCES	\$ 152,341	\$ 941,610
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION -		
APRIL 1, 2018	<u>129,084</u>	<u>810,929</u>
FUND BALANCES/NET POSITION -		
MARCH 31, 2019	<u><u>\$ 281,425</u></u>	<u><u>\$ 1,752,539</u></u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 2,791,269	\$ 216,975	\$ 3,008,244
	217,057		217,057
	156,899		156,899
	202,196		202,196
	22,768	2,187	24,955
	314,660		314,660
9,251	34,774		34,774
<u>\$ 9,251</u>	<u>\$ 3,739,623</u>	<u>\$ 219,162</u>	<u>\$ 3,958,785</u>
\$ 31,380	\$ 155,327	\$	\$ 155,327
	159,171		159,171
	564,000		564,000
	56,929		56,929
		279,181	279,181
216	220,096		220,096
2,379,944	2,379,944	(2,379,944)	
30,910	30,910	34,512	65,422
	50,000	(50,000)	
	313,244	(37,355)	275,889
	1,146,139		1,146,139
<u>\$ 2,442,450</u>	<u>\$ 5,078,871</u>	<u>\$ (2,153,606)</u>	<u>\$ 2,925,265</u>
<u>\$ (2,433,199)</u>	<u>\$ (1,339,248)</u>	<u>\$ 2,372,768</u>	<u>\$ 1,033,520</u>
\$	\$	\$	\$
2,448,000	2,448,000	(2,448,000)	
<u>\$ 2,448,000</u>	<u>\$ 2,448,000</u>	<u>\$ (2,448,000)</u>	<u>\$ -0-</u>
\$ 14,801	\$ 1,108,752	\$ (1,108,752)	\$
		1,033,520	1,033,520
384,034	1,324,047	(2,294,985)	(970,938)
<u>\$ 398,835</u>	<u>\$ 2,432,799</u>	<u>\$ (2,370,217)</u>	<u>\$ 62,582</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 STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2019

Net Change in Fund Balances - Governmental Funds	\$ 1,108,752
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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.	216,975
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Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	2,187
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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.	(279,181)
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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.	2,379,944
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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.	50,000
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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.	2,843
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Change in Net Position - Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ 1,033,520</div>
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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, 2019

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, 2019

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, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide 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 \$44,866 for the over transfer of maintenance tax collections and \$750 for costs related to the issuance of debt.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

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:

	<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.

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, 2019

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, 2019

NOTE 3. LONG-TERM DEBT

	<u>Series 2017</u>	<u>Series 2018</u>
Amount Outstanding – March 31, 2019	\$2,390,000	\$5,400,000
Interest Rates	2.00%-3.85%	3.00%-4.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2042	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, 2019:

	<u>April 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>March 31, 2019</u>
Bonds Payable	\$ 7,840,000	\$	\$ 50,000	\$ 7,790,000
Unamortized Discount	(27,530)		(1,135)	(26,395)
Unamortized Premium	70,531		2,721	67,810
Bonds Payable, Net	<u>\$ 7,883,001</u>	<u>\$ -0-</u>	<u>\$ 51,586</u>	<u>\$ 7,831,415</u>
		Amount Due Within One Year		\$ 180,000
		Amount Due After One Year		7,651,415
		Bonds Payable, Net		<u>\$ 7,831,415</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 3. LONG-TERM DEBT (Continued)

As of March 31, 2019, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
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
2025-2029	1,200,000	1,098,466	2,298,466
2030-2034	1,475,000	882,720	2,357,720
2035-2039	1,840,000	594,085	2,434,085
2040-2044	2,305,000	219,343	2,524,343
	<u>\$ 7,790,000</u>	<u>\$ 4,091,554</u>	<u>\$ 11,881,554</u>

As of March 31, 2019, 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, 2019, the District levied an ad valorem debt service tax rate of \$0.36 per \$100 of assessed valuation, which resulted in a tax levy of \$687,607 on the adjusted taxable valuation of \$191,001,933 for the 2018 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy 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, 2019

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.

Series 2017 and Series 2018 bond proceeds totaling \$315,335 were deposited into the Debt Service Fund in the prior fiscal year and restricted for the payment of bond interest. The restricted funds were used to pay bond interest during the current fiscal year.

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 \$2,022,512 and the bank balance was \$1,988,584. 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, 2019 as listed below:

	<u>Cash</u>
GENERAL FUND	\$ 342,168
DEBT SERVICE FUND	1,587,369
CAPITAL PROJECTS FUND	<u>92,975</u>
TOTAL DEPOSITS	<u><u>\$ 2,022,512</u></u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

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.

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

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>DEBT SERVICE FUND</u>		
TexPool	\$ 213,238	\$ 213,238
<u>CAPITAL PROJECTS FUND</u>		
TexPool	305,860	305,860
TOTAL INVESTMENTS	<u>\$ 519,098</u>	<u>\$ 519,098</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2019, the District's investment in TexPool was rated AAAM by Standard and Poor's.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

NOTE 6. CAPITAL ASSETS

	April 1, 2018	Increases	Decreases	March 31, 2019
Capital Assets Subject to Depreciation				
Water System	\$ 1,667,555	\$ 347,673	\$	\$ 2,015,228
Wastewater System	3,079,927	1,416,285		4,496,212
Drainage System	3,657,188	684,727		4,341,915
Total Capital Assets Subject to Depreciation	<u>\$ 8,404,670</u>	<u>\$ 2,448,685</u>	<u>\$ - 0 -</u>	<u>\$ 10,853,355</u>
Less Accumulated Depreciation				
Water System	\$ 48,893	\$ 50,258	\$	\$ 99,151
Wastewater System	91,405	120,832		212,237
Drainage System	132,144	108,091		240,235
Total Accumulated Depreciation	<u>\$ 272,442</u>	<u>\$ 279,181</u>	<u>\$ - 0 -</u>	<u>\$ 551,623</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,132,228</u>	<u>\$ 2,169,504</u>	<u>\$ - 0 -</u>	<u>\$ 10,301,732</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,132,228</u>	<u>\$ 2,169,504</u>	<u>\$ - 0 -</u>	<u>\$ 10,301,732</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, 2019, the District levied an ad valorem maintenance tax rate of \$0.19 per \$100 of assessed valuation, which resulted in a tax levy of \$362,904 on the adjusted taxable valuation of \$191,001,933 for the 2018 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. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

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 \$0.95 per \$100 of assessed valuation, which resulted in a tax levy of \$1,814,520 on the adjusted taxable valuation of \$191,001,933 for the 2018 tax year. The District paid \$1,146,139 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.

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 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. 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, 2019, a reserve has not been established.

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, 2019, the Master District has authorized but unissued water, wastewater and drainage bonds of \$673,375,000, road bonds of \$317,650,000 and park bonds of \$64,550,000. As of March 31, 2019, the Master District has issued contract revenue bonds totaling \$109,110,000.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 9. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES (Continued)

As of March 31, 2019, the debt service requirements on the contract bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 2,940,000	\$ 3,865,022	\$ 6,805,022
2021	3,050,000	3,757,014	6,807,014
2022	3,160,000	3,644,767	6,804,767
2023	3,265,000	3,543,373	6,808,373
2024	3,370,000	3,431,767	6,801,767
2025-2029	18,570,000	15,554,079	34,124,079
2030-2034	21,960,000	12,297,444	34,257,444
2035-2039	26,455,000	7,910,796	34,365,796
2040-2044	25,795,000	2,452,869	28,247,869
	<u>\$ 108,565,000</u>	<u>\$ 56,457,131</u>	<u>\$ 165,022,131</u>

Through March 31, 2019, each Participant's monthly bill was determined by multiplying the total number of equivalent single-family residential connections (ESFC) reserved for the Participant on the first day of the previous month by the unit cost per ESFC shown in the budget for each Participant. The 2019 fiscal year end unit cost per ESFC was \$50. Effective April 1, 2019, the Master District began separating the Authority fees from the monthly per connection charges and billing such Authority fees to each Participant monthly based upon that Participant's actual water usage plus an additional 5% for flushing and other non-metered water usage. Each Participant pays a unit cost of \$30 per ESFC beginning April 1, 2019. The following summary audited financial data on the regional facilities is presented for the year ended March 31, 2019.

	<u>Master District Enterprise Fund</u>
Total Assets	\$ 110,133,538
Total Deferred Outflows of Resources	1,008,131
Total Liabilities	<u>(124,068,680)</u>
Total Net Position	<u>\$(12,927,011)</u>
Total Operating Revenues	\$ 2,132,398
Total Operating Expenses	<u>(5,290,964)</u>
Operating Income (Loss)	<u>\$ (3,158,566)</u>
Total Non-operating Revenues (Expenses)	<u>\$ 2,815,879</u>
Change in Net Position	\$ (342,687)
Net Position – April 1, 2018	<u>(12,584,324)</u>
Net Position – March 31, 2019	<u>\$(12,927,011)</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

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 \$2,628,674 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.

NOTE 12. SALE OF BOND ANTICIPATION NOTE

On September 20, 2018, the District closed on the sale of its Series 2018 Bond Anticipation Note (the "BAN") in the principal amount of \$2,448,000. The BAN accrues interest at 2.525%. Proceeds from the BAN sale were used to reimburse the Developer for a portion of the following costs: stormwater compliance fees; operating costs; water, wastewater, and drainage facilities serving Towne Lake Sections 35, 43, 45, and 46; and costs related to the issuance of the BAN.

NOTE 13. SUBSEQUENT EVENT – BOND SALE

On May 7, 2019, subsequent to year-end, the District issued its \$4,500,000 Series 2019 Unlimited Tax Bonds. Proceeds from the bonds were used to retire the BAN (see Note 12) as well as reimburse the Developer for the remaining portion of the following costs: stormwater compliance fees; operating costs; water, wastewater, and drainage facilities serving Towne Lake Sections 35, 43, 45, and 46; and costs related to the issuance of the bonds.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2019

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, 2019

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 247,500	\$ 364,617	\$ 117,117
Water Service	180,000	217,057	37,057
Wastewater Service	85,000	156,899	71,899
Water Authority Fees	190,000	202,196	12,196
Penalty and Interest	6,000	7,534	1,534
Tap Connection and Inspection Fees	300,000	314,660	14,660
Miscellaneous Revenues	<u>10,000</u>	<u>16,634</u>	<u>6,634</u>
TOTAL REVENUES	<u>\$ 1,018,500</u>	<u>\$ 1,279,597</u>	<u>\$ 261,097</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 116,500	\$ 122,233	\$ (5,733)
Contracted Services	74,600	132,783	(58,183)
Purchased Water and Wastewater Service	528,000	564,000	(36,000)
Repairs and Maintenance	40,000	56,929	(16,929)
Other	<u>198,940</u>	<u>214,200</u>	<u>(15,260)</u>
TOTAL EXPENDITURES	<u>\$ 958,040</u>	<u>\$ 1,093,256</u>	<u>\$ (135,216)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 60,460</u>	<u>\$ 186,341</u>	<u>\$ 125,881</u>
OTHER FINANCING SOURCES(USES)			
Transfers In (Out)	<u>\$ -0-</u>	<u>\$ (34,000)</u>	<u>\$ (34,000)</u>
NET CHANGE IN FUND BALANCE	\$ 60,460	\$ 152,341	\$ 91,881
FUND BALANCE - APRIL 1, 2018	<u>129,084</u>	<u>129,084</u>	<u></u>
FUND BALANCE - MARCH 31, 2019	<u>\$ 189,544</u>	<u>\$ 281,425</u>	<u>\$ 91,881</u>

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, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2019

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	
≤¾"	<u>534</u>	<u>533</u>	x 1.0	<u>533</u>
1"	<u>72</u>	<u>71</u>	x 2.5	<u>178</u>
1½"	<u>2</u>	<u>2</u>	x 5.0	<u>10</u>
2"	<u>3</u>	<u>3</u>	x 8.0	<u>24</u>
3"			x 15.0	
4"			x 25.0	
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>612</u>	<u>610</u>		<u>795</u>
Total Wastewater Connections	<u>601</u>	<u>599</u>	x 1.0	<u>599</u>

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

Gallons billed to customers: 58,755,000 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, 2019

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

Does the District have Debt Service standby fees? Yes ☐ No ☒

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

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, 2019

PROFESSIONAL FEES:	
Auditing	\$ 11,750
Engineering	14,580
Legal	<u>95,903</u>
TOTAL PROFESSIONAL FEES	<u>\$ 122,233</u>
PURCHASED SERVICES FOR RESALE	<u>\$ 564,000</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 8,560
Operations and Billing	<u>22,233</u>
TOTAL CONTRACTED SERVICES	<u>\$ 30,793</u>
UTILITIES	<u>\$ 3,111</u>
REPAIRS AND MAINTENANCE	<u>\$ 56,929</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 8,074
Insurance	6,086
Office Supplies and Postage	17,349
Election Costs	5,191
Travel and Meetings	729
Other	<u>1,565</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 38,994</u>
TAP CONNECTIONS	<u>\$ 141,912</u>
SOLID WASTE DISPOSAL	<u>\$ 101,990</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 2,772
Permit Fees	125
Inspection Fees	28,716
Regulatory Assessment	<u>1,681</u>
TOTAL OTHER EXPENDITURES	<u>\$ 33,294</u>
TOTAL EXPENDITURES	<u><u>\$ 1,093,256</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
INVESTMENTS
FOR THE YEAR ENDED MARCH 31, 2019

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 212,759	\$
TexPool	XXXX0004	Varies	Daily	479	
TOTAL DEBT SERVICE FUND				<u>\$ 213,238</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0002	Varies	Daily	<u>\$ 305,860</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u><u>\$ 519,098</u></u>	<u><u>\$ - 0 -</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2019

	<u>Maintenance Taxes</u>		<u>Contract Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -						
APRIL 1, 2018	\$ 13,120		\$ 47,324		\$ 9,840	
Adjustments to Beginning						
Balance	<u>26,167</u>	\$ 39,287	<u>96,705</u>	\$ 144,029	<u>20,341</u>	\$ 30,181
Original 2018 Tax Levy	\$ 235,615		\$ 1,178,077		\$ 446,429	
Adjustment to 2018 Tax Levy	<u>127,289</u>	<u>362,904</u>	<u>636,443</u>	<u>1,814,520</u>	<u>241,178</u>	<u>687,607</u>
TOTAL TO BE						
ACCOUNTED FOR		\$ 402,191		\$ 1,958,549		\$ 717,788
TAX COLLECTIONS:						
Prior Years	\$ 35,592		\$ 130,704		\$ 27,410	
Current Year	<u>329,025</u>	<u>364,617</u>	<u>1,645,123</u>	<u>1,775,827</u>	<u>623,415</u>	<u>650,825</u>
TAXES RECEIVABLE -						
MARCH 31, 2019		<u>\$ 37,574</u>		<u>\$ 182,722</u>		<u>\$ 66,963</u>
TAXES RECEIVABLE BY						
YEAR:						
2018		\$ 33,879		\$ 169,397		\$ 64,192
2017		<u>3,695</u>		<u>13,325</u>		<u>2,771</u>
TOTAL		<u>\$ 37,574</u>		<u>\$ 182,722</u>		<u>\$ 66,963</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2019

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 88,224,131	\$ 39,818,623	\$ 28,674,577	\$ 8,551,142
Improvements	107,276,459	43,269,044	4,908,973	
Personal Property	840,785	329,553	59,010	
Exemptions	<u>(5,339,442)</u>	<u>(3,196,663)</u>	<u>(6,751,096)</u>	<u>(2,420,720)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 191,001,933</u>	<u>\$ 80,220,557</u>	<u>\$ 26,891,464</u>	<u>\$ 6,130,422</u>
TAX RATES PER \$100 VALUATION:				
Contract	\$ 0.95	\$ 1.01	\$ 1.140	\$ 0.10
Debt Service	0.36	0.21	0.085	0.00
Maintenance	<u>0.19</u>	<u>0.28</u>	<u>0.275</u>	<u>1.40</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.50</u>	<u>\$ 1.50</u>	<u>\$ 1.500</u>	<u>\$ 1.50</u>
ADJUSTED TAX LEVY*	<u>\$ 2,865,031</u>	<u>\$ 1,203,310</u>	<u>\$ 403,373</u>	<u>\$ 91,955</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>90.66 %</u>	<u>98.59 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

* 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, 2019

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	
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				
	<u>\$ 2,390,000</u>	<u>\$ 1,221,067</u>	<u>\$</u>	<u>3,611,067</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2019

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
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
	<u>\$ 5,400,000</u>	<u>\$ 2,870,487</u>	<u>\$ 8,270,487</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2019

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
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>\$ 7,790,000</u>	<u>\$ 4,091,554</u>	<u>\$ 11,881,554</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, 2019

Description	Original Bonds Issued	Bonds Outstanding April 1, 2018
Harris County Municipal Utility District No. 502 Unlimited Tax Bonds - Series 2017	\$ 2,440,000	\$ 2,440,000
Harris County Municipal Utility District No. 502 Unlimited Tax Bonds - Series 2018	<u>5,400,000</u>	<u>5,400,000</u>
TOTAL	<u>\$ 7,840,000</u>	<u>\$ 7,840,000</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	<u>7,840,000</u>	<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 and investment balances as of March 31, 2019: \$ 1,800,607

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 475,262

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding March 31, 2019	Paying Agent
	Principal	Interest		
\$	\$ 50,000	\$ 131,139	\$ 2,390,000	The Bank of New York Mellon Trust Company, N.A.
		182,105	5,400,000	The Bank of New York Mellon Trust Company, N.A.
<u>\$ - 0 -</u>	<u>\$ 50,000</u>	<u>\$ 313,244</u>	<u>\$ 7,790,000</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		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 364,617	\$ 211,713	\$ 73,817
Water Service	217,057	161,666	70,850
Wastewater Service	156,899	82,871	27,195
Water Authority Fees	202,196	150,621	64,432
Penalty and Interest	7,534	5,742	4,918
Tap Connection and Inspection Fees	314,660	287,865	206,880
Miscellaneous Revenues	16,634	9,429	9,044
TOTAL REVENUES	<u>\$ 1,279,597</u>	<u>\$ 909,907</u>	<u>\$ 457,136</u>
EXPENDITURES			
Professional Fees	\$ 122,233	\$ 142,719	\$ 102,348
Contracted Services	132,783	70,065	26,034
Purchased Water and Wastewater Services	564,000	463,725	252,500
Repairs and Maintenance	56,929	28,887	16,072
Other	214,200	186,289	116,561
TOTAL EXPENDITURES	<u>\$ 1,093,256</u>	<u>\$ 891,685</u>	<u>\$ 513,515</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 186,341</u>	<u>\$ 18,222</u>	<u>\$ (56,379)</u>
OTHER FINANCING SOURCES (USES)			
Transfer In (Out)	\$ (34,000)	\$ (9,800)	\$
Developer Advances	85,000	85,000	85,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (34,000)</u>	<u>\$ 75,200</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 152,341	\$ 93,422	\$ (56,379)
BEGINNING FUND BALANCE (DEFICIT)	<u>129,084</u>	<u>35,662</u>	<u>92,041</u>
ENDING FUND BALANCE	<u>\$ 281,425</u>	<u>\$ 129,084</u>	<u>\$ 35,662</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 102,404	\$ 166,211	28.4 %	23.3 %	16.1 %	50.5 %	97.1 %
14,529		17.0	17.8	15.5	7.2	
2,685		12.3	9.1	5.9	1.3	
3,290		15.8	16.6	14.1	1.6	
20,221	4,779	0.6	0.6	1.1	10.0	2.8
58,290		24.6	31.6	45.3	28.7	
1,349	245	1.3	1.0	2.0	0.7	0.1
<u>\$ 202,768</u>	<u>\$ 171,235</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 117,175	\$ 90,053	9.6 %	15.7 %	22.4 %	57.8 %	52.6 %
12,849	13,132	10.4	7.7	5.7	6.3	7.7
91,680		44.1	51.0	55.2	45.2	
3,025	344	4.4	3.2	3.5	1.5	0.2
<u>40,987</u>	<u>14,189</u>	<u>16.7</u>	<u>20.5</u>	<u>25.5</u>	<u>20.2</u>	<u>8.3</u>
<u>\$ 265,716</u>	<u>\$ 117,718</u>	<u>85.4 %</u>	<u>98.1 %</u>	<u>112.3 %</u>	<u>131.0 %</u>	<u>68.8 %</u>
\$ (62,948)	\$ 53,517	14.6 %	1.9 %	(12.3) %	(31.0) %	31.2 %
\$ 105,000	\$					
<u>\$ 105,000</u>	<u>\$ - 0 -</u>					
\$ 42,052	\$ 53,517					
<u>49,989</u>	<u>(3,528)</u>					
<u>\$ 92,041</u>	<u>\$ 49,989</u>					

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		
	2019	2018	2017
REVENUES			
Property/Contract Taxes	\$ 2,426,652	\$ 922,404	\$ 328,565
Penalty and Interest	15,234	4,452	1,013
Miscellaneous Revenues	<u>8,889</u>	<u>10,691</u>	<u>583</u>
TOTAL REVENUES	<u>\$ 2,450,775</u>	<u>\$ 937,547</u>	<u>\$ 330,161</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 32,282	\$ 19,111	\$ 11,172
Debt Service Principal	50,000		
Debt Service Interest and Fees	314,744		
Contractual Obligation	<u>1,146,139</u>	<u>591,297</u>	<u>181,485</u>
TOTAL EXPENDITURES	<u>\$ 1,543,165</u>	<u>\$ 610,408</u>	<u>\$ 192,657</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 907,610</u>	<u>\$ 327,139</u>	<u>\$ 137,504</u>
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ 34,000	\$ 9,800	\$
Proceeds From Issuance of Long-Term Debt	<u></u>	<u>315,335</u>	<u></u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 34,000</u>	<u>\$ 325,135</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 941,610	\$ 652,274	\$ 137,504
BEGINNING FUND BALANCE (DEFICIT)	<u>810,929</u>	<u>158,655</u>	<u>21,151</u>
ENDING FUND BALANCE	<u>\$ 1,752,539</u>	<u>\$ 810,929</u>	<u>\$ 158,655</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>610</u>	<u>372</u>	<u>198</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>599</u>	<u>367</u>	<u>197</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 32,780	\$ 180,144	99.0 %	98.4 %	99.5 %	99.9 %	100.0 %
		0.6	0.5	0.3		
96	106	0.4	1.1	0.2	0.1	
\$ 32,876	\$ 180,250	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
\$ 216	\$ 115	1.3 %	2.0 %	3.4 %	0.7 %	0.1 %
		2.0				
		12.8				
82,267	92,950	46.8	63.1	55.0	250.2	51.6
\$ 82,483	\$ 93,065	62.9 %	65.1 %	58.4 %	250.9 %	51.7 %
\$ (49,607)	\$ 87,185	37.1 %	34.9 %	41.6 %	(150.9) %	48.3 %
\$	\$					
\$ - 0 -	\$ - 0 -					
\$ (49,607)	\$ 87,185					
70,758	(16,427)					
\$ 21,151	\$ 70,758					
37	- 0 -					
36	- 0 -					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 502
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2019

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 Appointed)	Fees of Office for the year ended March 31, 2019	Expense Reimbursements for the year ended March 31, 2019	Title
Andrew Peebles	05/18 - 05/22 (Elected)	\$ 1,200	\$ 264	President
Catherine Munding	05/18 - 05/22 (Elected)	\$ 1,500	\$ 127	Vice President
James Spackman	05/18 - 05/20 (Appointed)	\$ 1,500	\$ 118	Secretary
John Suppatkul	05/18 - 05/20 (Appointed)	\$ 1,500	\$ 115	Director
Brian Thomas	01/19 - 05/22 (Appointed)	\$ 300	\$ -0-	Director

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): April 2, 2019.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution 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, 2019

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2019</u>	<u>Title</u>
Smith, Murdaugh, Little & Bonham, L.L.P.	07/09/12	\$ 101,094 \$ 24,480	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	03/02/11	\$ 11,750 \$ 6,900	Audit Related BAN Related
F. Matuska, Inc.	09/28/07	\$ 10,595	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/02/11	\$ 1,714	Delinquent Tax Attorney
Edminster, Hinshaw, Russ and Associates, Inc.	09/28/07	\$ 18,490	Engineer
RBC Capital Markets	09/28/07	\$ 24,480	Financial Advisor
Fran Matuska	09/28/07	\$ -0-	Investment Officer
Environmental Development Partners	11/28/11	\$ 301,278	Operator
Bob Leared Interests, Inc.	09/28/07	\$ 11,603	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

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