

OFFICIAL STATEMENT DATED AUGUST 17, 2023

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND INTEREST ON BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS; HOWEVER, SUCH INTEREST IS TAKEN INTO ACCOUNT IN DETERMINING THE ANNUAL ADJUSTED FINANCIAL STATEMENT INCOME OF APPLICABLE CORPORATIONS FOR THE PURPOSE OF DETERMINING THE ALTERNATIVE MINIMUM TAX IMPOSED ON CORPORATIONS. SEE “LEGAL MATTERS – TAX EXEMPTION” FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE **NOT** BEEN “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.

NEW ISSUE-Book-Entry-Only

Insured Rating (BAM): S&P “AA” (stable outlook)
See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” herein.

\$3,000,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 565
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX ROAD BONDS
SERIES 2023

The bonds described above (the “Bonds”) are obligations solely of Harris County Municipal Utility District No. 565 (the “District”) and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”

Dated: September 1, 2023

Due: September 1, as shown below

Interest Accrual Date: Date of Delivery

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas (the “Paying Agent/Registrar”). Interest on the Bonds accrues from the initial date of delivery (expected to be September 22, 2023) (the “Date of Delivery”), and is payable each March 1 and September 1, commencing March 1, 2024, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See “MUNICIPAL BOND INSURANCE” herein.

MATURITY SCHEDULE

Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2024	\$ 60,000	7.000 %	3.85 %	41430D CD5	2027	\$ 70,000	7.000 %	3.75 %	41430D CG8
2025	65,000	7.000	3.80	41430D CE3	2028	75,000	7.000	3.75	41430D CH6
2026	65,000	7.000	3.75	41430D CF0					

\$330,000 Term Bonds due September 1, 2032 (c), 41430D CM5 (b), 6.875% Interest Rate, 3.80% Yield (a)
 \$400,000 Term Bonds due September 1, 2036 (c), 41430D CR4 (b), 4.500% Interest Rate, 4.00% Yield (a)
 \$610,000 Term Bonds due September 1, 2041 (c), 41430D CW3 (b), 4.500% Interest Rate, 4.50% Yield (a)
 \$285,000 Term Bonds due September 1, 2043 (c), 41430D CY9 (b), 4.500% Interest Rate, 4.58% Yield (a)
 \$315,000 Term Bonds due September 1, 2045 (c), 41430D DA0 (b), 4.500% Interest Rate, 4.61% Yield (a)
 \$345,000 Term Bonds due September 1, 2047 (c), 41430D DC6 (b), 4.500% Interest Rate, 4.63% Yield (a)
 \$380,000 Term Bonds due September 1, 2049 (c), 41430D DE2 (b), 4.500% Interest Rate, 4.65% Yield (a)

- (a) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Bonds maturing on or after September 1, 2030, are subject to redemption prior to maturity at the option of the District, in whole or, from time to time, in part, on September 1, 2029, or on any date thereafter, at a price equal to par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein.

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Coats Rose, P.C., Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about September 22, 2023.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Coats Rose, P.C., 9 Greenway Plaza, 10th Floor, Houston, Texas, 77046 upon payment of the costs of duplication therefor.

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

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

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this OFFICIAL STATEMENT or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX B—Specimen Municipal Bond Insurance Policy."

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 "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of 97.0004% of the par value thereof which resulted in a net effective interest rate of 4.863787% as calculated pursuant to Chapter 1204, Texas Government Code (the IBA method).

Prices and Marketability

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

THE DISTRICT

<i>Description...</i>	The District is a political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created pursuant to House Bill 1379, 86 th Session of the Texas Legislature, Regular Session, effective June 10, 2019. The District has all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Article XVI, Section 59, and Article III, Section 52 of the Texas Constitution, House Bill 1379, 86 th Texas Legislature, Regular Session, 2019, codified as Chapter 8036, Texas Special District Local Laws Code (the “Act”) and operating pursuant to Chapters 49 and 54, Texas Water Code, as amended. The District consists of approximately 159.54 acres of land and consists of four noncontiguous tracts. See “THE DISTRICT” and “TAX DATA—Principal Taxpayers.”
<i>Location...</i>	The District is located in Harris County, entirely in the extraterritorial jurisdiction of the City of Houston and within the Waller Independent School District. The District is located approximately 38 miles northwest of the central downtown business district of the City of Houston and located north of US Highway 290 and west of Texas State Highway 99 (the “Grand Parkway”). Becker Road runs north and south and is adjacent to three tracts in the District. Bauer Hockley Road runs east to west and is adjacent to two tracts in the District. See “THE DISTRICT” and “AERIAL LOCATION MAP.”
<i>The Developer ...</i>	The developer of land within the District is Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership, (“Lennar Homes”) d.b.a. Friendswood Development Company (the “Developer”). The Developer is wholly owned by Lennar Corporation (“Lennar”), a publicly traded corporation whose stock is listed on the New York Stock Exchange under the ticker symbol “LEN.” Lennar’s activities include homebuilding, real estate investments, residential and commercial developments, and financial services operations throughout the United States. To date, the Developer has developed approximately 111 acres (663 residential lots) within the District which are being marketed as Becker Meadows, Becker Fields, and Becker Trace. The Developer continues to own approximately 22 acres of land within the District which is currently being constructed as Becker Landing (125 residential lots) and is expected to be completed in August 2023. After completion, the Developer will own no remaining acreage in the District. A portion of Sections One through Three of Becker Fields (approximately 169 lots) have been developed as a rental property community. Lennar Homes has completed homes on all 169 lots. All 169 homes have been purchased by Upward America Central REIT, LP, a Delaware limited partnership (“Upward”). See “RISK FACTORS” and “THE DEVELOPER.”
<i>Status of Development...</i>	<p>The land within the District is being developed primarily as a single-family residential community, currently consisting of 663 residential lots (approximately 494 traditional single-family residential lots and approximately 169 single-family rental lots) on approximately 111 acres. As of June 18, 2023, the District consisted of 492 completed traditional homes (488 occupied), and 2 homes under construction or in the name of Lennar Homes. As of June 18, 2023, the District consisted of 169 completed rental homes (156 occupied). According to the Developer, traditional homes within the District currently range in sales price from approximately \$200,000 to \$286,000 and rental homes within the District currently range in value from approximately \$188,000 to \$240,000. In addition, 125 traditional single-family residential lots on approximately 22 acres are currently under construction with an expected completion date of August 2023. See “RISK FACTORS—Transformer Shortage.”</p> <p>In addition, approximately 26 acres are not developable (street easements, drainage detention, parks and recreation space, right-of-way and utility sites). See “THE DISTRICT—Land Use” and “—Status of Development.”</p>
<i>Homebuilding...</i>	Lennar Homes is the sole homebuilder within the District. See “THE DISTRICT.”

Payment Record... The Bonds are the District’s first issuance of unlimited tax bonds for the purpose of financing road facilities. The District has previously issued two series of unlimited tax water, sewer and drainage bonds totaling \$17,040,000 principal amount, all of which is outstanding as of the date hereof (the “Outstanding Bonds”). The District has never defaulted in the payment of principal and interest on the Outstanding Bonds. \$142,500 of interest will be capitalized from Bond proceeds for payment of debt service on the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

THE BONDS

Description... Harris County Municipal Utility District No. 565 Unlimited Tax Road Bonds, Series 2023, in the aggregate principal amount of \$3,000,000 maturing serially on September 1 in each of the years 2024 through 2028, both inclusive, and as term bonds maturing on September 1 in each of the years 2032, 2036, 2041, 2043, 2045, 2047 and 2049 (the “Term Bonds”). The Bonds are dated September 1, 2023, and interest on the Bonds accrues from the Date of Delivery at the rates per annum set forth on the cover page hereof, and is payable on March 1, 2024, and each September 1 and March 1 thereafter until the earlier of stated maturity or redemption. The Bonds will be issued as fully registered bonds, pursuant to an order authorizing the issuance of the Bonds (the “Bond Order”), adopted by the Board of Directors of the District (the “Board”), in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. See “THE BONDS—General.”

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

Redemption... Bonds maturing on or after September 1, 2030, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2029, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds also are subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”

Use of Proceeds... Proceeds of the Bonds will be used to pay construction costs outlined herein under “USE AND DISTRIBUTION OF BOND PROCEEDS,” to capitalize \$142,500 of interest, to pay interest on funds that have been advanced by the Developer on behalf of the District; and to pay administrative costs and certain other costs and engineering fees related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Authority for Issuance... The Bonds are the first series of bonds issued out of an aggregate of \$40,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of financing road facilities to serve the land within its boundaries. The Bonds are issued by the District pursuant to the terms and conditions of an order authorizing the issuance of the Bonds (the “Bond Order”), Article III, Section 52 of the Texas Constitution, the Act, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “RISK FACTORS—Future Debt” and “THE BONDS—Authority for Issuance.”

Source of Payment... Principal of and interest on the Bonds, the Outstanding Bonds, and such additional tax bonds as may hereafter be issued by the District are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “THE BONDS—Source of and Security for Payment.”

<i>Municipal Bond Rating And Municipal Bond Insurance...</i>	S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) assigned a municipal bond insured rating of “AA” (stable outlook) to the Bonds with the understanding that, upon issuance and delivery of the Bonds, a Bond Insurance Policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM”) for the Bonds. No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made. See “RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND INSURANCE,” “MUNICIPAL BOND RATING” and “APPENDIX B.”
<i>NOT Qualified Tax-Exempt Obligations...</i>	The District has not designated the Bonds as “qualified tax-exempt obligations” for financial institutions. See “LEGAL MATTERS—Not Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Coats Rose, P.C., Bond Counsel, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “PREPARATION OF OFFICIAL STATEMENT.”
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

RISK FACTORS

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2022 Certified Taxable Assessed Valuation	\$ 55,423,135	(a)
Certified Estimate of 2023 Taxable Assessed Valuation	\$149,731,264	(b)
Estimated Taxable Assessed Valuation as of June 1, 2023.....	\$152,296,909	(c)
Gross Direct Debt Outstanding.....	\$20,040,000	(d)
Estimated Overlapping Debt.....	<u>5,122,522</u>	(e)
Gross Direct Debt and Estimated Overlapping Debt.....	\$25,162,522	
Ratio of Gross Direct Debt to:		
Certified Estimate of 2023 Taxable Assessed Valuation.....	13.38%	
Estimated Taxable Assessed Valuation as of June 1, 2023	13.16%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
Certified Estimate of 2023 Taxable Assessed Valuation.....	16.81%	
Estimated Taxable Assessed Valuation as of June 1, 2023	16.52%	
Funds Available for Debt Service as of June 20, 2023:		
Water, Wastewater and Drainage Debt Service Fund.....	\$ 946,770	(f)
Capitalized Interest from Road Bond proceeds	<u>142,500</u>	(g)
Total Funds Available for Debt Service	\$1,089,270	(f)
Available General Operating Funds as of June 20, 2023	\$451,034	
Available Water, Wastewater and Drainage Capital Project Funds as of June 20, 2023	\$426,066	
2022 Debt Service Tax Rate	\$0.31	
2022 Maintenance Tax Rate	<u>1.14</u>	
2022 Total Tax Rate	\$1.45	
2023 Anticipated Debt Service Tax Rate.....	\$0.77	
2023 Anticipated Maintenance Tax Rate.....	<u>0.68</u>	
2023 Anticipated Total Tax Rate.....	\$1.45	(h)
Average Annual Debt Service Requirement (2024-2049).....	\$1,299,028	(i)
Maximum Annual Debt Service Requirement (2024)	\$1,449,586	(i)
Tax Rates Required to Pay Average Annual Debt Service (2024-2049) at a 95% Collection Rate		
Based upon Certified Estimate of 2023 Taxable Assessed Valuation	\$0.92	(i)
Based upon Estimated Taxable Assessed Valuation as of June 1, 2023.....	\$0.90	(i)
Tax Rates Required to Pay Maximum Annual Debt Service (2024) at a 95% Collection Rate		
Based upon Certified Estimate of 2023 Taxable Assessed Valuation	\$1.02	(i)
Based upon Estimated Taxable Assessed Valuation as of June 1, 2023.....	\$1.01	(i)
Status of Development as of June 18, 2023 (j):		
<u>Traditional Single-Family Residential:</u>		
Total Single-Family Residential Lots	494	
Total Completed Single-Family Residential Homes (488 Occupied).....	492	
Single-Family Residential Homes Under Construction or in Lennar Homes' Name	2	
Single-Family Residential Lots Under Construction.....	125	
<u>Single-Family Residential Rental Homes:</u>		
Total Rental Single-Family Lots	169	
Total Completed Rental Single-Family Homes (156 Occupied).....	169	
Estimated Population.....	2,254	(k)

(a) As certified by the Harris Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
(b) Provided by the Appraisal District as an estimated indication of the 2023 taxable value (as of January 1, 2023). Such value is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified in the fall of 2023. See "TAXING PROCEDURES."
(c) Provided by the Appraisal District for information purposes only. Such amount reflects increases in value occurring between January 1, 2022, and June 1, 2023. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. No taxes will be levied upon such amount until it is certified by the Appraisal District. See "TAXING PROCEDURES."
(d) After issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)."
(e) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
(f) Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on an equal basis, a pro rata portion of the District's ad valorem tax revenue will be allocated to bonds sold for water, wastewater and drainage facilities ("Water, Wastewater and Drainage Bonds"), and a pro rata portion will be allocated to bonds sold for road facilities ("Road Bonds"), including the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS" and "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
(g) The District will capitalize \$142,500 of interest from the Bond proceeds and deposit such funds in a Road Debt Service Fund.
(h) Represents anticipated tax rates; the Board may ultimately levy a different tax rate.
(i) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "TAX DATA—Tax Adequacy for Debt Service."
(j) See "THE DISTRICT—Land Use—Status of Development."
(k) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

\$3,000,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 565 *(A political subdivision of the State of Texas located within Harris County)*

UNLIMITED TAX ROAD BONDS SERIES 2023

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Municipal Utility District No. 565 (the “District”) of its \$3,000,000 Unlimited Tax Road Bonds, Series 2023 (the “Bonds”).

The District is a political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created pursuant to House Bill 1379, 86th Session of the Texas Legislature, Regular Session effective June 10, 2019 (the “Act”). The Bonds are issued by the District pursuant to the terms and conditions of an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”), Article III, Section 52 of the Texas Constitution, Senate Bill 2464, 81st Texas Legislature, Regular Session, codified at Chapter 9038, Texas Special District Local Laws Code (the “Act”), Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District on November 5, 2019, and general laws of the State of Texas (“Texas”) relating to the issuance of bonds by political subdivisions of Texas.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and certain other information about the District, Lennar Homes of Texas Land and Construction Ltd., a Texas limited partnership, (“Lennar Homes”) d.b.a. Friendswood Development Company (the “Developer”), and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Coats Rose, P.C. (“Bond Counsel”), 9 Greenway Plaza, Suite 1000, Houston, Texas 77046 upon payment of the costs of duplication therefore.

THE BONDS

General

The following is a description of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order of the Board authorizing the issuance and sale of the Bonds. 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 September 1, 2023, and will accrue interest from the Date of Delivery with interest payable on each March 1 and September 1, commencing March 1, 2024, until the earlier of maturity or prior redemption. The Bonds mature on September 1 in the principal amounts and years and accrue interest at the rates shown on the cover page of this OFFICIAL STATEMENT. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Authority for Issuance

At a bond election held within the District on November 5, 2019, the voters of the District authorized the issuance of a total of \$40,000,000 principal amount of unlimited tax bonds for the purpose of financing road improvements and facilities to the land within its boundaries. The Bonds are issued pursuant to such authorization. See “Issuance of Additional Debt” below.

The Bonds are issued by the District pursuant to the terms and provisions of the Bond Resolution, Article III, Section 52 of the Texas Constitution, the Act, Chapters 49 and 54 of the Texas Water Code, as amended, and the general laws of the State of Texas relating to the issuance of the bonds by political subdivisions of the State of Texas.

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

Source of and Security for Payment

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

Record Date

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

Funds

In the Bond Order, the Road Debt Service Fund (“Road Debt Service Fund”) is created, and the proceeds from all taxes levied and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund.

The District also maintains a Water, Wastewater and Drainage Debt Service Fund for bonds sold for water, wastewater and drainage facilities (the “Water, Wastewater and Drainage Bonds”) that is not pledged to bonds issued to finance roads (the “Road Bonds”), including the Bonds. Funds in the Road Debt Service Fund are not available to pay principal and interest on Water, Wastewater and Drainage Bonds.

\$142,500 of capitalized interest shall be deposited into the Road Debt Service Fund upon receipt. The remaining proceeds from sale of the Bonds, including interest earnings thereon, shall be deposited into the Road Capital Projects Fund, to pay the costs of acquiring or constructing road improvements and facilities and for paying the costs of issuing the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” for a more complete description of the use of Bond proceeds.

No Arbitrage

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be “arbitrage bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond Order 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

Mandatory Redemption: The Bonds maturing on September 1 in each of the years 2032, 2036, 2041, 2043, 2045, 2047 and 2049 (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below):

\$330,000 Term Bonds		\$400,000 Term Bonds		\$610,000 Term Bonds	
Due September 1, 2032		Due September 1, 2036		Due September 1, 2041	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2029	\$ 75,000	2033	\$ 95,000	2037	\$ 110,000
2030	80,000	2034	100,000	2038	115,000
2031	85,000	2035	100,000	2039	120,000
2032 (maturity)	90,000	2036 (maturity)	105,000	2040	130,000
				2041 (maturity)	135,000

\$285,000 Term Bonds		\$315,000 Term Bonds		\$345,000 Term Bonds	
Due September 1, 2043		Due September 1, 2045		Due September 1, 2047	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2042	\$ 140,000	2044	\$ 155,000	2046	\$ 170,000
2043 (maturity)	145,000	2045 (maturity)	160,000	2047 (maturity)	175,000

\$380,000 Term Bonds	
Due September 1, 2049	
Mandatory Redemption Date	Principal Amount
2048	\$ 185,000
2049 (maturity)	195,000

Notice of the mandatory redemption of Term Bonds will be provided at least thirty (30) calendar days prior to the date fixed for redemption, with the particular portions of the Term Bonds to be redeemed to be selected by lot or other customary method in accordance with the procedures of DTC so long as the Bonds are registered in accordance with the Book-Entry-Only System. See “BOOK-ENTRY-ONLY SYSTEM.”

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2030, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2029, or on 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 fewer than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if fewer 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 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 that would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the register at its principal payment office in Dallas, Texas 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. While the Bonds are in the Book-Entry-Only system, the Bonds will be registered in the name of Cede & Co. and will not be transferred. See “BOOK-ENTRY-ONLY SYSTEM.”

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

Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Dallas, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid to the Beneficial Owners of the Bonds. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners. See "BOOK-ENTRY-ONLY SYSTEM."

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.

Replacement of Paying Agent/Registrar

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

Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bonds. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Issuance of Additional Debt

The District may issue additional bonds necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. After issuance of the Bonds, the District will have \$37,000,000 principal amount of unlimited tax bonds for the purposes of financing road improvements and facilities authorized but unissued. The District also has \$238,770,000 amount of unlimited tax bonds for the purposes of financing water, wastewater and drainage improvements and facilities, \$102,325,000 amount of unlimited tax bonds for refunding water, wastewater and drainage improvements and facilities, \$16,000,000 principal amount of unlimited tax bonds for the purpose of refunding unlimited tax bonds for road facilities, \$20,410,000 principal amount of unlimited tax bonds for financing park and recreational facilities and \$8,165,000 principal amount of unlimited tax bonds for refunding unlimited tax bonds for park and recreational facilities that has been authorized by the District's voters. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent (1%) of the value of the taxable property in the District; however, the outstanding principal amount of such bonds may exceed one percent (1%) but not three percent (3%) of the value of the taxable property in the District if the District has (i) a ratio of debt to certified assessed valuation of ten percent (10%) or less; (ii) a credit rating that conforms to the TCEQ rules; (iii) a credit enhanced rating on the District's bond issue that conforms to the TCEQ rules; or (iv) a contract with a political subdivision or an entity acting on behalf of a political subdivision under which the subdivision or the entity agrees to provide to the District taxes or other revenues, as consideration for the District's development or acquisition of the facility, including a contract under Section 49.108 of the Texas Water Code, as amended. The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters, or the amount ultimately issued by the District.

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

The issuance of additional debt for any of the above-described purposes and the levy of taxes to pay debt service on such debt could dilute the investment security for the Bonds.

Annexation by the City of Houston

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

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

Consolidation

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or the redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the 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 Limitations 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 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 obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 rating of "AA+" from S & P Global Ratings. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were prepared by Costello Engineering & Surveying (the “Engineer”). Non-construction costs are based upon either contract amounts or estimates of various costs from the Engineer and Masterson Advisors LLC (the “Financial Advisor”). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and agreed-upon procedures are completed by an independent accountant. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, where required.

CONSTRUCTION COSTS

Paving for Becker Meadows Section One.....	\$	692,170
Paving for Becker Meadows Section Two.....		381,278
Paving for Becker Meadows Section Three.....		373,995
Paving for Becker Meadows Section Four.....		396,455
Paving for Becker Fields Section One.....		247,399
Engineering for Becker Meadows Sections One-Four and Becker Fields Section One.....		407,441

Total Construction Costs..... **\$ 2,498,738**

NON-CONSTRUCTION COSTS

Underwriter's Discount (a).....	\$	89,989
Capitalized Interest.....		142,500
Developer Interest (Estimated).....		38,707

Total Non-Construction Costs..... **\$ 271,196**

ISSUANCE COSTS AND FEES

Issuance Costs and Professional Fees.....	\$	180,055
Engineering Report.....		15,000
Road Appraisal Fee.....		32,000
Attorney General's Fee.....		3,000
Contingency (a).....		11

Total Issuance Costs and Fees..... **\$ 230,066**

TOTAL BOND ISSUE REQUIREMENT **\$ 3,000,000**

(a) Contingency represents the difference in the estimated and actual amount of Underwriter’s Discount.

THE DISTRICT

General

The District is a political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created pursuant to House Bill 1379, 86th Session of the Texas Legislature, Regular Session effective June 10, 2019 (the “Act”). The District has with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution, the Act, and operating pursuant to Chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; the control and diversion of storm water; to finance, develop and maintain parks and recreational facilities, and to acquire, construct, finance, improve and operate road facilities, among other things. The District may also provide solid waste collection and disposal service and contract for or employ peace officers. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District is subject to the continuing supervision of the TCEQ.

The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, road and firefighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in plats which have been approved by the City of Houston and filed in the real property records of Harris County, Texas. The District is also required to obtain TCEQ approvals prior to acquiring, constructing and financing water, wastewater, drainage, park, recreation and fire-fighting facilities. See “THE SYSTEM—Regulation.”

Description and Location

The District consists currently of approximately 159.54 acres of land, consisting of four noncontiguous tracts. The District is located in Harris County, entirely in the extraterritorial jurisdiction of the City of Houston and within the Waller Independent School District. The District is located approximately 38 miles northwest of the central downtown business district of the City of Houston and located north of US Highway 290 and west of Texas State Highway 99 (the “Grand Parkway”). Becker Road runs north and south and is adjacent to three tracts in the District. Bauer Hockley Road runs east to west and is adjacent to two tracts in the District. See “AERIAL LOCATION MAP” herein.

Land Use

The following table has been provided by the Engineer and represents the current land use within the District.

<u>Single-Family Residential</u>	Approximate	
	<u>Acres</u>	<u>Lots</u>
Becker Meadows Section One.....	10	57
Section Two.....	11	70
Section Three.....	10	62
Section Four.....	11	73
Becker Fields Section One (a).....	13	72
Section Two (b).....	10	65
Section Three (c).....	12	73
Section Four.....	9	55
Becker Trace Section One.....	13	68
Section Two.....	12	68
Becker Landing Section One (d).....	<u>22</u>	<u>125</u>
	133	788
<i>Undevelopable (e)</i>	<u>26</u>	<u>---</u>
District Total.....	<u>159</u>	<u>788</u>

- (a) 66 lots are part of a rental community.
- (b) All lots are part of a rental community.
- (c) 38 lots are part of a rental community.
- (d) Utilities are currently under construction with an expected completion date of August 2023.
- (e) Consists of street easements, drainage detention, parks and recreation space, right-of-way and utility sites.

Status of Development

Single Family Residential: The land within the District is being developed primarily as a single-family residential community, currently consisting of 663 residential lots (approximately 494 traditional single-family residential lots and approximately 169 single-family rental lots) on approximately 111 acres. As of June 18, 2023, the District consisted of 492 completed traditional homes (488 occupied), and 2 homes under construction or in the name of Lennar Homes. As of June 18, 2023, the District consisted of 169 completed rental homes (156 occupied). See “RISK FACTORS—Dependence on Principal Taxpayers.” According to the Developer, traditional homes within the District currently range in sales price from approximately \$200,000 to \$286,000 and rental homes within the District currently range in value from approximately \$188,000 to \$240,000. In addition, 125 traditional single-family residential lots on approximately 22 acres are currently under construction with an expected completion date of August 2023. See “RISK FACTORS—Transformer Shortage” and “TAX DATA—Principal Taxpayers.” The estimated population within the District is 2,254 based upon 3.5 persons per occupied single-family residence.

Homebuilders

The sole homebuilder within the District is Lennar Homes. See “THE DEVELOPER—Principal Property Owner.”

Future Development

The District anticipates issuing additional bonds to fund water, wastewater, drainage, road and park and recreational facilities within the District necessary to serve the land at full development. The Engineer has stated that under current development plans, the remaining authorized but unissued bonds (\$296,180,000) should be sufficient to finance the construction of water, wastewater, and drainage facilities, park and recreational facilities, and roads for the District. See “RISK FACTORS—Future Debt,” and “THE SYSTEM.”

THE DEVELOPER

Role of a Developer

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave streets in areas being financed with bond proceeds, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer’s right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds. See “RISK FACTORS.”

Description of the Developer

The principal developer of land within the District is Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership, (“Lennar Homes”) d.b.a. Friendswood Development Company (the “Developer.”) The Developer is wholly owned by Lennar Corporation (“Lennar”), a publicly traded corporation whose stock is listed on the New York Stock Exchange under the ticker symbol “LEN.” Lennar’s activities include homebuilding, real estate investments, residential and commercial developments, and financial services operations throughout the United States. To date, the Developer has developed approximately 111 acres within the District which are being marketed as Becker Meadows, Becker Fields, and Becker Trace. The Developer continues to own approximately 22 acres of land within the District, which is currently under construction as Becker Landing with an expected completion date of August 2023. After completion, the Developer will own no remaining acreage in the District. Lennar Homes is the sole homebuilder within the District.

Neither the Developer, nor any affiliates of the Developer are responsible for, liable for, or have made any commitment for payment of the Bonds or other obligations of the District. Neither the Developer, nor any affiliates of the Developer have any legal commitment to the District or the owners of the Bonds to continue development of the land within the District, and the Developer may sell or otherwise dispose of property within the District, or any assets, at any time. Further, the financial condition of the Developer is subject to change.

Lennar files annual, quarterly, and current reports, proxy statements and other information with the SEC. Lennar’s SEC filings are available to the public over the internet at the SEC’s website at <http://www.sec.gov>. You may also read and copy any document that Lennar may have filed with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC0330 for further information regarding the operation of the Public Reference Room. In addition, Lennar makes available on their web site <http://www.lennar.com> their annual reports on form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (and any amendments to those reports) filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as practicable after they have been electronically filed with the SEC. Unless otherwise specified, information contained on Lennar’s web site, available by hyperlink from Lennar’s web site or on the SEC’s web site, is not incorporated into this OFFICIAL STATEMENT. The District has not obtained any representations from Lennar concerning their publicly available filings or undertaken any review thereof and assumes no responsibility for the information contained therein.

Principal Property Owner

A portion of the homes constructed in Becker Fields Sections One through Three (169 lots) have been constructed by Lennar Homes and sold to Upward America Central REIT, LP, a Delaware limited partnership (“Upward”) as a rental community. Upward currently owns 169 properties within the District. No information is available from the Appraisal District related to the Estimated Taxable Valuation as of June 1, 2023 for Upward’s property ownership within the District. Upward, as the owner of a portion of the homes in Becker Fields, as described above, is responsible for the payment of property taxes, maintenance of such homes and the landscape maintenance of the front yards. According to the Developer, of the approximately 169 lots located within Becker Fields Sections One through Three, and owned by Upward, approximately 92% are currently occupied. See “TAX DATA—Principal Taxpayers” and “RISK FACTORS—Dependence on Principal Taxpayers.”

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and elections are held on the first Saturday of May of even numbered years. All of the Board members own land within the District subject to a note and deed of trust in favor of the Developer. The current members and officers of the Board along with their titles and terms are listed as follows:

<u>Name</u>	<u>District Board Title</u>	<u>Term Expires</u>
Taylor Lewis Gaver	President	May 2024
Kevin Kulhanek	Vice President	May 2026
Kevin O’Kelley	Secretary	May 2026
Amy Koy	Assistant Secretary	May 2024
Jennie Mussler	Assistant Secretary	May 2024

District Consultants

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

Bond Counsel and General Counsel: Coats Rose, P.C. serves as Bond Counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Coats Rose, P.C. serves as general counsel to the District on matters other than the issuance of bonds.

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

Auditor: The financial statements of the District as of May 31, 2022, and for the year then ended, included in this offering document, have been audited by FORVIS, LLP, independent auditors, as stated in their report appearing herein. See “APPENDIX A.” The District has engaged FORVIS, LLP to audit its financial statements for the year ended May 31, 2023.

Engineer: The District’s consulting engineer is Costello Engineering & Surveying.

Tax Appraisal and Collections: The Harris Central Appraisal District has the responsibility of appraising all property within the District. See “TAXING PROCEDURES.”

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. B&A Municipal Tax Service LLC (the “Tax Assessor/Collector”) has been employed by the District to serve in this capacity.

Bookkeeper: The District has contracted with L&S District Services (the “Bookkeeper”) for bookkeeping services.

Operator: The operation and maintenance of the District’s water and wastewater systems are overseen by Si Environmental (the “Operator”).

Disclosure Counsel: McCall, Parkhurst & Horton L.L.P. serves as Disclosure Counsel to the District in connection with the issuance of the Bonds. Fees for services rendered by Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

THE SYSTEM

Regulation

According to the Engineer, the District’s water supply and distribution, wastewater collection, and storm drainage facilities (collectively, the “System”) have been designed in accordance with accepted engineering practices and the then current requirements of various entities having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction of the System was required to be accomplished in accordance with the standards and specifications of such entities and is subject to inspection by each such entity. Operation of the System must be accomplished in accordance with the standards and requirements of such entities. The TCEQ exercises continuing supervisory authority over the District. Discharge of treated sewage is subject to the regulatory authority of the TCEQ and U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District, the City of Houston, Harris County and, in some instances, the TCEQ. Harris County and the City of Houston also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. The following descriptions are based upon information supplied by the District’s Engineer.

Source of Water Supply

Water supply to the District is currently provided by the District’s water supply and storage facility. This facility consists of a 500-gpm water well, a 15,000-gallon hydropneumatic pressure tank, a 193,100-gallon ground storage tank and booster pump capacity totaling 3,600 gallons per minute along with emergency power facilities. The current facility is capable of serving approximately 750 equivalent single-family connections (“ESFCs”). As of June 2023, the District served approximately 663 ESFCs. According to the District’s Engineer, the District’s existing water supply facilities provide adequate capacity to serve the existing development in the District. Water Plant No. 1 Phase 2 is currently under construction with an expected completion date of January, 2024. The District also has an emergency interconnect agreement with Harris County Municipal Utility District No. 319.

Subsidence District Requirements

The District is within the boundaries of the Harris-Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in areas within the Subsidence District’s jurisdiction. In 1999, the Texas legislature created the North Harris County Regional Water Authority (the “Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County (including the District).

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 Authority has entered into a Water Supply Contract with the City of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The District is included within the Authority’s GRP.

The Authority has the power to issue debt supported by the revenues pledged for the payment of its obligations and may establish fees, rates, and charges as necessary to accomplish its purposes. The Authority currently charges the District, and other major groundwater users, a fee of \$4.10 per 1,000 gallons of groundwater pumped and \$4.55 for surface water received. These fees are subject to increase in the future. The Authority has issued revenue bonds to fund, among other things, certain Authority surface water project costs, including the construction of a network of transmission and distribution lines, storage tanks and pumping stations to transport and distribute water within the Authority (the “Authority System”). It is expected that the Authority will issue substantially more bonds by the year 2035 to finance the Authority’s project costs.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand within the Authority’s GRP beginning in 2010; (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand within the Authority’s GRP beginning in 2025; and (iii) limit groundwater withdrawals to no more than 20% of the total annual water demand within the Authority’s GRP beginning in 2035. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total annual water demand within the Authority’s GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. Groundwater pumped from wells located within the Authority is not currently subject to the Disincentive Fee. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the District.

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

Wastewater Treatment

The District currently receives wastewater treatment from a leased plant from AUC Group, Inc. that has capacity of 200,000 gallon per day (“gpd”), which is capable of serving 800 ESFCs. According to the District’s Engineer, the District’s existing wastewater treatment facilities provide adequate capacity to serve the existing development in the District. As of June 2023, the District served approximately 663 ESFCs.

Water Distribution, Wastewater, Collection and Storm Drainage

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 663 single-family residential lots. In addition, facilities for approximately 125 lots are currently under construction with an expected completion date of August 2023. See “THE DISTRICT—Land Use.”

Flood Protection

“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 rainstorm 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. Currently there are 4 residential lots that are partially within the 100-year flood plain according to FEMA maps. The lots have been filled above the 100-year flood plain elevation, and the District’s Engineer is currently working with FEMA and Harris County Flood Control District to have the lots removed from the 100 year flood plain area.

Waterworks and Sewer System Operating Statement

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the operation of the District’s water and wastewater operations are not pledged to the payment of the Bonds but are available for any lawful purpose including payment of debt service on the Bonds, at the discretion and upon action of the Board. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds. The following statement sets forth in condensed form the historical results of operation of the District’s General Fund as derived from the District’s audited financial statements for the fiscal years ended May 31, 2021 through 2022. An unaudited summary for the fiscal year ended May 31, 2023 has been provided by the Bookkeeper. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to “APPENDIX A” for further and complete information.

		<u>Fiscal Year Ended May 31</u>	
	<u>6/1/2022 to 5/31/2023 (a)</u>	<u>2022</u>	<u>2021</u>
<i>Revenues:</i>			
Property Taxes	\$ 646,520	\$ 179,798	\$ 62,076
Water Service	203,663	55,643	10,606
Sewer Service	267,116	77,057	12,710
Regional Water Fee	279,794	54,120	12,348
Penalty and Interest	12,620	2,368	315
Tap Connection and Inspection Fees	340,286	576,105	114,831
Investment Income	940	1,743	27
Total Revenues	<u>\$ 1,750,939</u>	<u>\$ 946,834</u>	<u>\$ 212,913</u>
<i>Expenditures:</i>			
Lease Payments	\$ 179,350	\$ 135,600	\$ 113,000
Reginal Water Fee	276,942	78,623	12,439
Professional Fees	77,000	114,781	67,033
Contracted Services	180,774	107,561	36,493
Utilities	71,007	42,588	19,353
Repairs and Maintenance	231,967	188,343	87,808
Other Expenditures	97,882	21,871	15,521
Tap Connections	254,360	236,624	48,344
Capital Outlay	-	98,840	-
Debt Service, Debt Issuance Costs	-	79,200	-
Total Expenditures	<u>\$ 1,369,282</u>	<u>\$ 1,104,031</u>	<u>\$ 399,991</u>
<i>NET REVENUES</i>	\$ 381,657	\$ (157,197)	\$ (187,078)
<i>Other Financing Sources (Uses)</i>			
Developer Advances Received	<u>\$ 138,500</u>	<u>\$ 195,000</u>	<u>\$ 142,000</u>
<i>General Operating Fund Balance (Beginning of Year)</i>	\$ 16,370	\$ (21,434)	\$ 23,644
<i>General Operating Fund Balance (End of Year)</i>	<u>\$ 536,527</u>	<u>\$ 16,370</u>	<u>\$ (21,434)</u>

(a) Unaudited, provided by the District’s bookkeeper.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2022 Certified Taxable Assessed Valuation	\$ 55,423,135	(a)
Certified Estimate of 2023 Taxable Assessed Valuation	\$149,731,264	(b)
Estimated Taxable Assessed Valuation as of June 1, 2023.....	\$152,296,909	(c)
Gross Direct Debt Outstanding	\$20,040,000	(d)
Estimated Overlapping Debt.....	<u>5,122,522</u>	(e)
Gross Direct Debt and Estimated Overlapping Debt	\$25,162,522	
Ratio of Gross Direct Debt to:		
Certified Estimate of 2023 Taxable Assessed Valuation.....	13.38%	
Estimated Taxable Assessed Valuation as of June 1, 2023	13.16%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
Certified Estimate of 2023 Taxable Assessed Valuation.....	16.81%	
Estimated Taxable Assessed Valuation as of June 1, 2023	16.52%	
Funds Available for Debt Service as of June 20, 2023:		
Water, Wastewater and Drainage Debt Service Fund.....	\$ 946,770	(f)
Capitalized Interest from Road Bond proceeds	<u>142,500</u>	(g)
Total Funds Available for Debt Service	\$1,089,270	(f)
Available General Operating Funds as of June 20, 2023	\$451,034	
Available Water, Wastewater and Drainage Capital Project Funds as of June 20, 2023	\$426,066	

- (a) As certified by the Appraisal District. See “TAXING PROCEDURES.”
- (b) Provided by the Appraisal District as an estimated indication of the 2023 taxable value (as of January 1, 2023). Such value is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified in the fall of 2023. See “TAXING PROCEDURES.”
- (c) Provided by the Appraisal District for information purposes only. Such amount reflects increases in value occurring between January 1, 2022, and June 1, 2023. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. No taxes will be levied upon such amount until it is certified by the Appraisal District. See “TAXING PROCEDURES.”
- (d) After issuance of the Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”
- (e) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt.”
- (f) Although all of the District’s debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on an equal basis, a pro rata portion of the District’s ad valorem tax revenue will be allocated to bonds sold for water, wastewater and drainage facilities (“Water, Wastewater and Drainage Bonds”), and a pro rata portion will be allocated to bonds sold for road facilities (“Road Bonds”), including the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”
- (g) The District will capitalize \$142,500 of interest from the Bond proceeds and deposit such funds in a Road Debt Service Fund.

Investments of the District

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

Outstanding Bonds

The District has previously issued two series of unlimited tax water, sewer and drainage bonds totaling \$17,040,000, all of which is outstanding as of the date hereof (the “Outstanding Bonds”). The following table lists the original principal amount of the bonds issued by the District and the Outstanding Bonds.

Series	Original Principal Amount	Outstanding Bonds
2022	\$ 4,740,000	\$ 4,740,000
2023	<u>12,300,000</u>	<u>12,300,000</u>
Total	\$ 17,040,000	\$ 17,040,000

Debt Service Requirements

The following sets forth the debt service on the Outstanding Bonds and the Bonds. This schedule does not reflect the fact that the District capitalized \$572,394 of interest from the Series 2023 Unlimited Tax Bonds in May 2023, and will capitalize \$142,500 of interest from proceeds of the Bonds. See “THE BONDS—Funds” and “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Year	Outstanding Bonds	The Bonds			Total
	Debt Service Requirements	Principal	Interest	Total	Debt Service Requirements
2023	\$ 383,253.23 (a)				\$ 383,253.23
2024	1,247,193.75	\$ 60,000	\$ 142,391.77	\$ 202,391.77	1,449,585.52
2025	1,142,393.75	65,000	147,012.50	212,012.50	1,354,406.25
2026	1,132,443.75	65,000	142,462.50	207,462.50	1,339,906.25
2027	1,126,493.75	70,000	137,912.50	207,912.50	1,334,406.25
2028	1,124,218.75	75,000	133,012.50	208,012.50	1,332,231.25
2029	1,110,268.75	75,000	127,762.50	202,762.50	1,313,031.25
2030	1,103,818.75	80,000	122,606.25	202,606.25	1,306,425.00
2031	1,101,168.75	85,000	117,106.25	202,106.25	1,303,275.00
2032	1,096,993.75	90,000	111,262.50	201,262.50	1,298,256.25
2033	1,089,993.75	95,000	105,075.00	200,075.00	1,290,068.75
2034	1,097,568.75	100,000	100,800.00	200,800.00	1,298,368.75
2035	1,098,893.75	100,000	96,300.00	196,300.00	1,295,193.75
2036	1,099,193.75	105,000	91,800.00	196,800.00	1,295,993.75
2037	1,103,443.75	110,000	87,075.00	197,075.00	1,300,518.75
2038	1,106,468.75	115,000	82,125.00	197,125.00	1,303,593.75
2039	1,108,243.75	120,000	76,950.00	196,950.00	1,305,193.75
2040	1,113,768.75	130,000	71,550.00	201,550.00	1,315,318.75
2041	1,117,193.75	135,000	65,700.00	200,700.00	1,317,893.75
2042	1,119,137.50	140,000	59,625.00	199,625.00	1,318,762.50
2043	1,124,600.00	145,000	53,325.00	198,325.00	1,322,925.00
2044	1,127,625.00	155,000	46,800.00	201,800.00	1,329,425.00
2045	1,128,912.50	160,000	39,825.00	199,825.00	1,328,737.50
2046	1,133,125.00	170,000	32,625.00	202,625.00	1,335,750.00
2047	1,135,368.75	175,000	24,975.00	199,975.00	1,335,343.75
2048	820,662.50	185,000	17,100.00	202,100.00	1,022,762.50
2049	823,575.00	195,000	8,775.00	203,775.00	1,027,350.00
Total	\$ 28,916,021.98	\$ 3,000,000	\$ 2,241,954.27	\$ 5,241,954.27	\$ 34,157,976.25

(a) Excludes the March 1, 2023 debt service payment of \$116,075.

Average Annual Debt Service Requirements (2024-2049)	\$1,299,028
Maximum Annual Debt Service Requirement (2024)	\$1,449,586

Estimated Overlapping Debt

The following table indicates the outstanding debt payable from ad valorem taxes of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service, and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,770,442,125	6/30/2023	0.01%	\$ 177,044
Harris County Flood Control District.....	797,615,000	6/30/2023	0.01%	79,762
Harris County Hospital District.....	70,970,000	6/30/2023	0.01%	7,097
Harris County Department of Education.....	13,865,000	6/30/2023	0.01%	1,387
Port of Houston Authority.....	445,749,397	6/30/2023	0.01%	44,575
Waller Independent School District.....	523,115,000	6/30/2023	0.92%	4,812,658
Total Estimated Overlapping Debt.....				\$ 5,122,522
The District.....	\$ 20,040,000	(a)	100.00%	20,040,000
Total Direct and Estimated Overlapping Debt.....				\$ 25,162,522

Direct and Estimated Overlapping Debt as a Percentage of:

Certified Estimate of 2023 Taxable Assessed Valuation	16.81%
Estimated Taxable Assessed Valuation as of June 1, 2023	16.52%

(a) Includes the Bonds and the Outstanding Bonds.

Overlapping Taxes

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

Set forth below are the taxes levied for the 2022 tax year by all entities overlapping the District and the District. No entities have levied a 2023 tax rate as of the date herein. No recognition is given to local assessments for civic association dues, fire department contributions or any other levy of entities other than political subdivisions.

	2022 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (a).....	\$ 0.535121
Waller Independent School District.....	1.285600
Harris County ESD No. 3.....	0.099883
Harris County ESD No. 21.....	0.100000
Total Overlapping Tax Rate.....	\$ 2.020604
The District (b).....	\$ 1.450000
Total Tax Rate.....	\$ 3.470604

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

(b) See “TAX DATA—Debt Service Tax” and “—Maintenance and Operations Tax.”

TAX DATA

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, the tax adequate to provide funds to pay the principal of and interest on the Bonds. See “Tax Rate Distribution” and “Tax Roll Breakdown” below.

Maintenance and Operations Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted November 5, 2019, and voters of the District authorized the Board, among other things, to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 appraised valuation for water, sewer and drainage purposes, and \$1.50 per \$100 appraised valuation for road purposes. In addition, at the November 5, 2019 election, the voters of the District also authorized to levy a maintenance tax rate not to exceed \$0.10 per \$100 appraised valuation specifically related to maintenance of park and recreational facilities. Any maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

Tax Exemption

The District currently grants no exemptions from ad valorem taxes.

Tax Rate Distribution

	Anticipated				
	2023 (a)	2022	2021	2020	2019 (a)
Debt Service	\$ 0.77	\$ 0.31	\$ -	\$ -	\$ -
Maintenance and Operations	0.68	1.14	1.45	1.45	1.45
Total	\$ 1.45	\$ 1.45	\$ 1.45	\$ 1.45	\$ 1.45

(a) Represents anticipated tax rates; the Board may ultimately levy a different tax rate.

(b) Initial year of taxation.

Historical Tax Collections

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

Tax Year	Certified Taxable	Tax Rate	Total Tax Levy	Total Collections as of June 30, 2023 (b)	
	Assessed Valuation (a)			Amount	Percent
2019	\$ 2,591,372	\$ 1.450	\$ 37,575	\$ 37,575	100.00%
2020	4,281,510	1.450	62,082	62,082	100.00%
2021	13,258,696	1.450	192,251	192,251	100.00%
2022	55,423,135	1.450	803,635	802,341	99.84%

(a) As certified by the Appraisal District.

(b) Unaudited.

Tax Roll Breakdown

The District’s appraised value as of January 1 of each year is used by the District in establishing its tax rate. See “TAXING PROCEDURES—Valuation of Property for Taxation.” The following represents the composition of property comprising the 2019 through 2022 Certified Taxable Assessed Valuations. Breakdowns of the Certified Estimate of 2023 Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, and the Estimated Taxable Assessed Valuation as of June 1, 2023 of \$152,296,909 are not available from the Appraisal District. See “TAXING PROCEDURES.” Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

Tax Year	Type of Property			Gross Assessed Valuations	Deferments and Exemptions(a)	Net Assessed Valuations
	Land	Improvements	Personal Property			
2019	\$ 2,591,372	\$ -	\$ -	\$ 2,591,372	\$ -	\$ 2,591,372
2020	2,931,510	1,350,000	-	4,281,510	-	4,281,510
2021	5,632,978	7,603,842	71,323	13,308,143	(49,447)	13,258,696
2022	22,014,155	33,667,845	25,351	55,707,351	(284,216)	55,423,135

(a) See “TAXING PROCEDURES.”

Principal Taxpayers

The following table represents the ten principal taxpayers and their taxable appraised value as a percentage of the 2022 Certified Taxable Assessed Valuation of \$55,423,135. This represents certified ownership as of January 1, 2022. Accurate principal taxpayer lists related to the Certified Estimate of 2023 Taxable Assessed Valuation of \$149,731,264, which is subject to review and downward adjustment prior to certification, and the Estimated Taxable Assessed Valuation as of June 1, 2023, which is subject to review and downward revision prior to certification, of \$152,296,909 are not available as of the date hereof.

Taxpayer	2022 Certified Taxable Assessed Valuation	% of 2022 Certified Taxable Assessed Valuation
Upward America Central Property Owner LP (a)	\$ 14,227,379	25.67%
Friendswood Development Company (b)	7,397,225	13.35%
Lennar Homes of Texas Land (b)	2,221,142	4.01%
FKH SFR Propco K LP	361,045	0.65%
Individual	286,659	0.52%
Individual	280,348	0.51%
Individual	273,990	0.49%
ET 2 LP	267,071	0.48%
Individual	266,866	0.48%
Individual	265,776	0.48%
Total	\$ 25,847,501	46.64%

(a) See “RISK FACTORS—Dependence on Principal Taxpayers” and “THE DEVELOPER—Principal Property Owner.”

(b) See “THE DISTRICT” and “THE DEVELOPER.”

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements on the Bonds and the Outstanding Bonds if no growth in the District’s tax base occurred beyond the Certified Estimate of 2023 Taxable Assessed Valuation of \$149,731,264 and the Estimated Taxable Assessed Valuation as of June 1, 2023 of \$152,296,909. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, and the sale of no additional bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”

Average Annual Debt Service Requirement (2024-2049).....	\$1,299,028
\$0.92 Tax Rate on the Certified Estimate of 2023 Taxable Assessed Valuation	\$1,308,651
\$0.90 Tax Rate on the Estimated Taxable Assessed Valuation as of June 1, 2023	\$1,302,139
Maximum Annual Debt Service Requirement (2024).....	\$1,449,586
\$1.02 Tax Rate on the Certified Estimate of 2023 Taxable Assessed Valuation	\$1,450,896
\$1.01 Tax Rate on the Estimated Taxable Assessed Valuation as of June 1, 2023	\$1,461,289

No representation or suggestion is made that the Certified Estimate of 2023 Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, or the Estimate of Taxable Assessed Valuation as of January 1, 2023 will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the Outstanding 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 and Security for Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See “TAX DATA.”

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 responsibility for reviewing and equalizing the values established by the appraisal district. The Harris Central 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 Central 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. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District.

Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a residence homestead exemption equal to exemption received by the deceased spouse until such surviving spouse remarries. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed or fatally injured in the line of duty is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

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

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

Tax Abatement

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

Valuation of Property for Taxation

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

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

The Property Tax Code requires the Appraisal 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.

During the 2nd Special Session, convened on June 27, 2023, the Texas Legislature passed Senate Bill 2 ("SB 2"), which, among other things, includes provisions that prohibit an appraisal district from increasing the appraised value of real property during the 2024 tax year on non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,000,000 (the "Maximum Property Value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the "Appraisal Cap"). After the 2024 tax year, through December 31, 2026, the Maximum Property Value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in consumer price index, as applicable, to the Maximum Property Value. SB 2 was signed into law by the Governor on July 22, 2023; however, the provisions described hereinabove will take effect January 1, 2024, but only if the constitutional amendment proposed by H.J.R. 2, 88th Legislature, 2nd Called Session, 2023, is approved by the voters on November 7, 2023.

Disaster Exemption

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

District and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal 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. However, a person who is (i) 65 years of age or older, (ii) disabled or (iii) a disabled veteran, entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate described for each classification below. Debt service and contract tax rates cannot be reduced by a tax rate election held within any of the districts described below.

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

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

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

The District: A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis. For the 2023 tax year, the Board designated the District as a Developing District. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District’s Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both subject to the restrictions on residential homesteads described above under “Levy and Collection of Taxes”. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the cost of suit and sale, by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser’s deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. The District’s ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See “RISK FACTORS—Tax Collection Limitations and Foreclosure Remedies.”

RISK FACTORS

General

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District’s bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See “THE BONDS—Source of and Security for Payment.” The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District’s obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See “Registered Owners’ Remedies” herein.

Transformer Shortage

The construction and sale of new homes in the District is subject to various risk factors, including shortages in obtaining materials. Recently, the Developer in the District has reported difficulties and long delays in obtaining the electrical transformers needed to transform high voltage in electrical power lines to the low voltage used in homes as a result of ongoing supply chain issues throughout the country. Without transformers, new homes cannot be connected to the power grid. Historically, transformers have been installed within thirty (30) to ninety (90) days after homebuilders begin the construction of homes on vacant lots and delays in receiving transformers is currently six (6) months to over twelve (12) months. If delays and the lack of availability of transformers continues, Lennar Homes may be unwilling to purchase lots in the District or to begin construction of homes on lots already purchased. According to the Developer, 125 lots currently under construction (Becker Landing) are expected to be substantially complete in August 2023. Connection to the power grid is expected by December 2023, pending walk through and approval of CenterPoint. Any delay in connection with such lots to the power grid will delay construction of new homes in the District which could impact the future growth of the District’s tax base. The delays being experienced by the Developer in the District are delays that are being experienced throughout the region and nationally. See “THE DISTRICT—Status of Development.”

Dependence on Principal Taxpayers

The ten principal taxpayers in the District represent \$25,847,501 or 46.64% of the 2022 Certified Taxable Assessed Valuation (\$55,423,135) within the District, which represents ownership as of January 1, 2022. The largest taxpayer, Upward America Central Property Owner LP, represents approximately 25.67% (\$14,227,379) of the 2022 Certified Taxable Assessed Valuation (\$55,423,135). See “THE DEVELOPER—Principal Property Owner” and “TAX DATA—Principal Taxpayers.” Accurate principal taxpayer lists related to the Certified Estimate of 2023 Taxable Assessed Valuation of \$149,731,264, which is subject to review and downward adjustment prior to certification, and the Estimated Taxable Assessed Valuation as of June 1, 2023, which is subject to review and downward revision prior to certification, of \$152,296,909 are not available. The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District’s ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy additional taxes or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Order, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis could have a material adverse effect upon the District’s ability to pay debt service on the Bonds on a current basis.

The Developer and its affiliates have informed the District that its current plans are to continue building homes. Neither the Developer nor any future developer is obligated to implement development plans on any particular schedule, or at all. Thus, the furnishing of any information related to any proposed development should not be interpreted as a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer to implement any plan of development. Furthermore, there is no restriction on any landowner’s right to sell land. The District can make no prediction as to the effects that current or future economic conditions or governmental circumstances may have on any plans of the Developer, its affiliates or any other landowners.

Atlas 14

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the District. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain. See “THE SYSTEM.”

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, rental homes and developed lots. The market value of such development is related to general economic conditions in the Houston region and the national economy. Demand for lots and the construction of taxable improvements thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of such property is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See “Credit Markets and Liquidity in the Financial Markets” herein and “THE DEVELOPER.”

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly the liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 38 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and decline in the nation’s real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth or reduce the value of the District’s property tax base.

Competition

The demand for and construction of single-family homes, developed lots and rental homes in the District, which is 38 miles from downtown Houston, could be affected by competition from other residential developments, including other residential developments located in Harris County and the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer or any other landowner in the sale of developed lots and completed homes within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District.

Potential Effects of Oil Price Fluctuations on the Houston Area

The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. This District cannot predict the impact that negative conditions in the oil industry could have on property values in the District.

Specific Flood Type Risks

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

Riverine (or Fluvial) Flood: Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

Severe Weather

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.

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

Possible Impact on District Tax Rate

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The Certified Estimate of 2023 Taxable Assessed Valuation is \$149,731,264, which is subject to review and downward revision prior to certification. After issuance of the Bonds, the maximum debt service requirement will be \$1,449,586 (2024), and the average annual debt service requirement will be \$1,299,028 (2024-2049 inclusive). Assuming no increase or decrease from the Certified Estimate of 2023 Taxable Assessed Valuation of \$149,731,264, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$1.02 and \$0.92 per \$100 of appraised valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum debt service requirement and the average annual debt service requirement, respectively. Assuming no increase or decrease from the Estimated Taxable Assessed Valuation as of June 1, 2023, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$1.01 and \$0.90 per \$100 of appraised valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum debt service requirement and the average annual debt service requirement, respectively. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

No representation or suggestion is made that the Certified Estimate of 2023 Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, or the Estimate of Taxable Assessed Valuation as of January 1, 2023 will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

Tax Collections Limitations and Foreclosure Remedies

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

Registered Owners' Remedies

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

Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. After reimbursement with the proceeds of the Bonds, the District will continue to owe the Developer approximately \$13,815,000 (estimate as of July 1, 2023) plus interest for advances made for engineering and construction of water, wastewater, drainage, road and park facilities, which will be financed with future bond issues. A total of \$255,810,000 principal amount of unlimited tax bonds for financing water, wastewater and drainage facilities, \$102,325,000 amount of unlimited tax bonds for refunding bonds issued for water, wastewater and drainage facilities, \$40,000,000 principal amount of unlimited tax bonds for the purpose of financing road facilities, \$16,000,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued for road facilities, \$20,410,000 principal amount of unlimited tax bonds for financing park and recreational facilities and \$8,165,000 principal amount of unlimited tax bonds for refunding bonds issued for park and recreational facilities has been authorized by the District's voters. After issuance of the Bonds, \$37,000,000 principal amount of road bonds will remain authorized but unissued and \$238,770,000 principal amount of the water, wastewater and drainage bonds will remain authorized but unissued.

In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The District is authorized to issue bonds to refund or redeem its outstanding debt. The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of bonds for water, wastewater and drainage facilities and park and recreational facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds, but the issuance of road bonds is not. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt." The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

Environmental Regulation and Air Quality

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 Service Area. 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-Brazoria area ("HGB Area")—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under two separate federal ozone standards: the 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" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2027. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB Area is currently designated as a "moderate" nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2024. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

Water Supply & Discharge Issues:

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

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

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

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater 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 issued 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. While the District is currently not subject to the MS4 Permit, if the District's inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

On May 25, 2023, the Supreme Court of the United States issued its decision in *Sackett v. EPA*, which clarified the definition of "waters of the United States" and significantly restricted the reach of federal jurisdiction under the CWA. Under the *Sackett* decision, "waters of the United States" includes only geographical features that are described in ordinary parlance as "streams, oceans, rivers, and lakes" and to adjacent wetlands that are indistinguishable from such bodies of water due to a continuous surface connection.

While the *Sackett* decision removed a great deal of uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements, in the future.

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The Underwriter has entered into an agreement with Build America Mutual Assurance Company (“BAM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”

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

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

Future and Proposed Legislation

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

2023 Legislative Session

The 88th Texas Legislature commenced on January 10, 2023, and concluded on May 29, 2023. The 88th Legislative 1st Special Session convened on May 29, 2023, and concluded on June 27, 2023. The 88th Legislative 2nd Special Session convened on June 27, 2023, and concluded on July 13, 2023. The Governor of Texas may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Legislature may enact laws that materially change current law as it relates to the District.

LEGAL MATTERS

Legal Opinions

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

In addition to serving as Bond Counsel, Coats Rose, P.C. also acts as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of Bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature is then pending against or, to the best knowledge of the certifying officers, threatened against the District contesting or attacking the Bonds or the Bond Order; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority of proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the Bond Order, the corporate existence or boundaries of the District or the titles of the then present officers of the Board.

Not Qualified Tax-Exempt Obligations

The District has not designated the Bonds as “qualified tax-exempt obligations.” within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

No Material Adverse Change

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

Tax Exemption

On the date of initial delivery of the Bonds, Coats Rose, P.C., Houston, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof, except that such interest is taken into account in determining the annual adjusted financial statement of income of applicable corporations (as defined in section 59(k) of the Internal Revenue Code of 1986 (the “Code”)) for the purpose of determining the alternative minimum tax imposed on corporations, 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 Code (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 such opinion, Bond Counsel will rely upon representations and certifications of the District made in a certificate pertaining to the use, expenditure, and investment of the proceeds of the Bonds and certain other funds and will assume continuing compliance by the District with the representations and warranties in and covenants of the Bond Order subsequent to the issuance of the Bonds. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax- exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, “S” corporations with “subchapter C” earnings and profits, owners of interests in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry (or who have paid or incurred certain expenses allocable to) tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the “Discount Bonds”) is less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, “S” corporations with “subchapter C” earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of interests in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the “Premium Bonds”) is greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain or decrease the amount of any loss to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the state and local tax consequences of owning Premium Bonds.

MUNICIPAL BOND RATING

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) assigned a municipal bond insured rating of “AA” (stable outlook) to the Bonds with the understanding that, upon issuance and delivery of the Bonds, a Bond Insurance Policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM”). An explanation of the ratings may be obtained from S&P. No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made.

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See “RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND INSURANCE.”

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) 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.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section 6901 of the New York Insurance Law, which are most often issued by states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2023 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$486.0 million, \$204.5 million and \$281.5 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

Bond Counsel

Coats Rose, P.C. is employed as Bond Counsel for the District and has reviewed the information appearing in this OFFICIAL STATEMENT under the captions "THE BONDS," "THE DISTRICT-General," "TAXING PROCEDURES," "LEGAL MATTERS," AND "CONTINUING DISCLOSURE OF INFORMATION." Bond Counsel has reviewed the information under the aforementioned sections solely to determine whether such information fairly summarizes the law or documents referred to in such sections. Bond Counsel has not independently verified other factual information contained in this OFFICIAL STATEMENT nor conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon the limited participation of such firm as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Consultants

In approving this OFFICIAL STATEMENT, the District has relied upon the following consultants that have provided information used herein.

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

Auditor: The financial statements of the District as of May 31, 2022, and for the year then ended, included in this offering document, have been audited by FORVIS, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

Tax Appraisal and Collections: The Harris Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: 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 B&A Municipal Tax Service LLC and is included herein in reliance upon the authority of such firm as an expert in assessing property values and collecting taxes.

Bookkeeper: The information related to the unaudited summary of the District's General Operating Fund as it appears in "THE SYSTEM" has been provided from records of L&S District Services and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

If, subsequent to the date of the OFFICIAL STATEMENT, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the OFFICIAL STATEMENT to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the OFFICIAL STATEMENT satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (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.

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain financial information and operating data annually to the MSRB through EMMA. The financial information and operating data which will be provided 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 "THE SYSTEM—Waterworks and Sewer System Operating Statement," "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," except for "Estimated Overlapping Debt," "TAX DATA," and in APPENDIX A (Independent Auditor's Report and Financial Statements of the District and Supplemental Schedules). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2023. Any financial statements so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable year to the MSRB within such six-month period and audited financial statements when the audit report becomes available.

The District's current fiscal year end is May 31. Accordingly, it must provide updated information by November 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 specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. The terms “material” and “financial obligation” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operational data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from MSRB

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

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although registered or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance with Prior Undertakings

Since its first issuance of bonds in 2022, the District has complied in all material respects with its prior continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

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

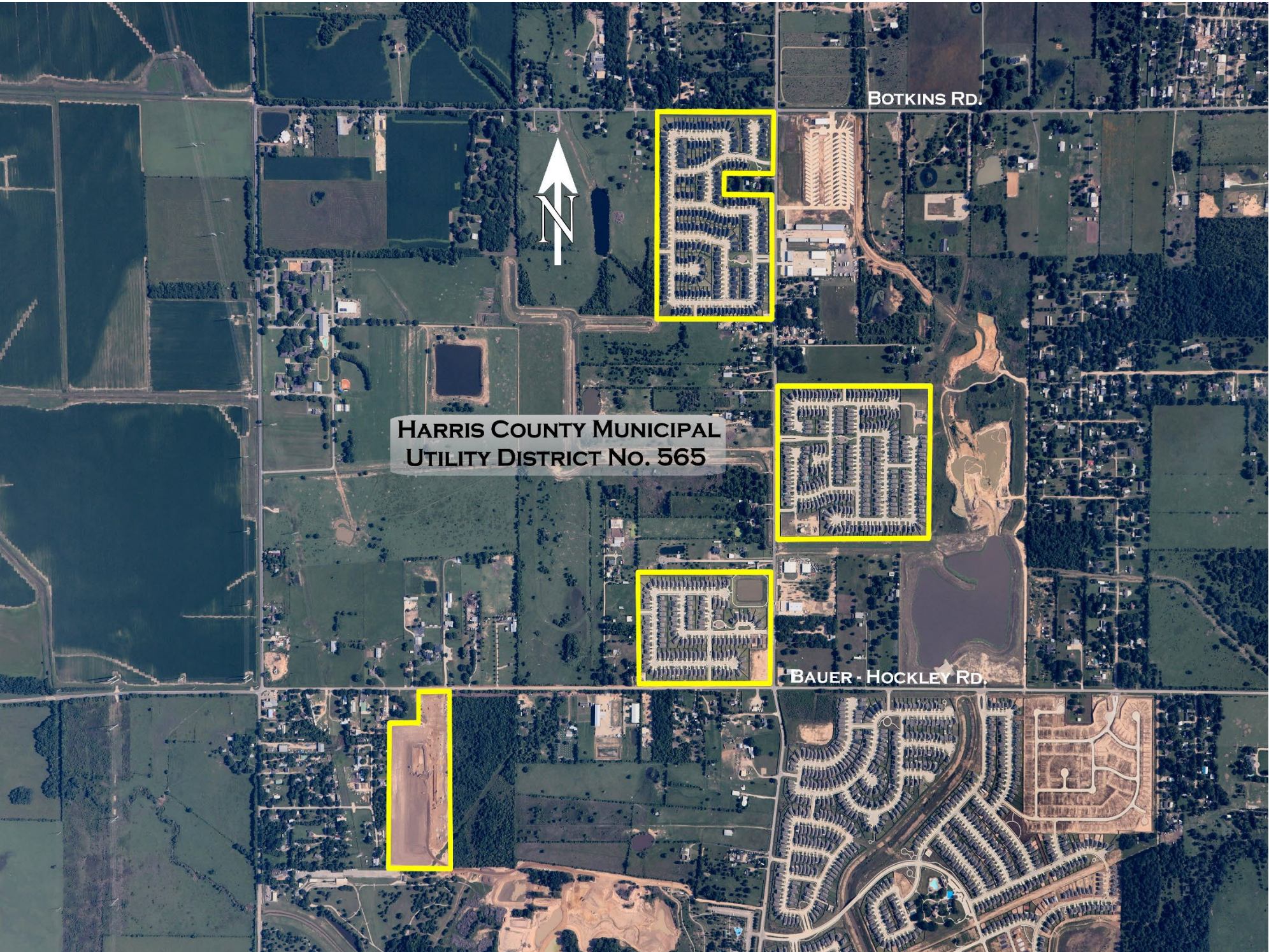
This OFFICIAL STATEMENT was approved by the Board of Directors of Harris County Municipal Utility District No. 565, as of the date shown on the cover page.

/s/ Taylor Lewis Gaver
President, Board of Directors

ATTEST:

/s/ Kevin O'Kelley
Secretary, Board of Directors

AERIAL LOCATION MAP
(Approximate Boundaries as of July 2023)



BOTKINS RD.



HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT No. 565

BAUER - HOCKLEY RD.

PHOTOGRAPHS OF THE DISTRICT
(Taken July 2023)













APPENDIX A

Independent Auditor's Report and Financial Statements of the District for the fiscal year ended May 31, 2022

Harris County Municipal Utility District No. 565
Harris County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2022

Harris County Municipal Utility District No. 565
May 31, 2022

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forvis.com

Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 565
Harris County, Texas

Opinions

We have audited the financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 565 (the District), as of and for the year ended May 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of May 31, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance

and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information (Not Subjected to Audit Procedures)

Our audit was performed for the purpose of forming opinions on the basic financial statements as a whole. The accompanying schedules required by the Texas Commission on Environmental Quality listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

FORVIS, LLP

Houston, Texas
October 17, 2022

Harris County Municipal Utility District No. 565

Management's Discussion and Analysis

May 31, 2022

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Notes to Financial Statements

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

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Financial Analysis of the District as a Whole

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

Summary of Net Position

	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 473,228	\$ 170,445
Capital assets	<u>12,433,903</u>	<u>4,344,948</u>
Total assets	<u>\$ 12,907,131</u>	<u>\$ 4,515,393</u>
Long-term liabilities	\$ 13,237,099	\$ 4,694,738
Other liabilities	<u>470,021</u>	<u>191,874</u>
Total liabilities	<u>13,707,120</u>	<u>4,886,612</u>
Net position:		
Net investment in capital assets	(828,816)	(349,790)
Unrestricted	<u>28,827</u>	<u>(21,429)</u>
Total net position	<u>\$ (799,989)</u>	<u>\$ (371,219)</u>

The total net position of the District decreased by \$428,770, or about 116 percent. The majority of the decrease in net position is related to services and depreciation expenses exceeding property tax, tap connection and inspection fees, and charges for services revenues. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Position

	<u>2022</u>	<u>2021</u>
Revenues:		
Property taxes	\$ 192,251	\$ 62,081
Charges for services	186,820	35,664
Other revenues	<u>580,216</u>	<u>115,173</u>
Total revenues	<u>959,287</u>	<u>212,918</u>

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Management's Discussion and Analysis (Continued)
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Summary of Changes in Net Position (Continued)

	2022	2021
Expenses:		
Services	\$ 949,986	\$ 399,991
Depreciation	260,087	109,790
Debt service	177,984	-
Total expenses	1,388,057	509,781
Change in net position	(428,770)	(296,863)
Net position, beginning of year	(371,219)	(74,356)
Net position, end of year	\$ (799,989)	\$ (371,219)

Financial Analysis of the District's Fund

The District's combined fund balances as of the end of the fiscal year ended May 31, 2022, were \$20,989, an increase of \$42,423 from the prior year.

The general fund's fund balance increased by \$37,803, primarily due to property tax, tap connection and inspection fees, service revenues and developer advances exceeding service operations expenditures and debt issuance costs.

The capital projects fund's fund balance increased by \$4,620, due to net proceeds received from the sale of a bond anticipation note being greater than capital outlay expenditures, debt issuance costs and repayments of developer advances.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to water and sewer service revenues, regional water fee revenues and related expenditures, tap connection and inspection fee revenues and related expenditures, developer advances received, and professional fees, contracted services, utilities and repairs and maintenance expenditures being great than anticipated. In addition, capital outlay expenditures and debt issuance costs were incurred but not budgeted for. The fund balance as of May 31, 2022, was expected to be \$25,466 and the actual end-of-year fund balance was \$16,369.

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Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

	2022	2021
Land and improvements	\$ 3,196,172	\$ 624,325
Construction in progress	98,840	-
Water facilities	2,447,349	1,888,286
Wastewater facilities	1,973,799	322,874
Drainage facilities	1,199,385	650,210
Road and paving facilities	3,518,358	859,253
Total capital assets	\$ 12,433,903	\$ 4,344,948

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

Wastewater treatment plant No. 1 and lift station	\$ 1,160,660
Becker Fields detention, Phases 1 and 2	1,875,218
Becker Trace mass grading and detention	696,629
Construction in progress related to the water plant No. 1, Phase 2, and wastewater treatment plant No. 1, Phase 2	98,840
Water, sewer, drainage and paving improvements at Becker Meadows, Sections 2, 3 and 4	1,436,359
Water, sewer, drainage and paving improvements at Becker Trace, Section 1	1,534,638
Paving improvements at Becker Fields, Sections 1, 2 and 4	1,290,627
Water plant No. 1, Phase 1	7,572
Waterline interconnect with Harris County Municipal Utility District No. 319	248,499
Total additions to capital assets	\$ 8,349,042

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The developer within the District has constructed facilities on behalf of the District under the terms of contracts with the District. The District has agreed to reimburse the cost of these facilities, plus interest, from the proceeds of future bond issues, subject to the approval of the Commission, as applicable, and the terms of the contracts with the developer. As of May 31, 2022, a liability for developer-constructed capital assets of \$10,089,000 was recorded in the government-wide financial statements.

Debt

The changes in the debt position of the District during the fiscal year ended May 31, 2022, are summarized as follows:

Long-term debt payable, beginning of year	\$	4,694,738
Increases in long-term debt		10,301,863
Decreases in long-term debt		<u>(1,759,502)</u>
 Long-term debt payable, end of year	 \$	 <u>13,237,099</u>

At May 31, 2022, the District had \$255,810,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District, \$20,410,000 of unlimited tax bonds authorized, but unissued, for the purposes of constructing park and recreational facilities and \$40,000,000 of unlimited tax bonds authorized, but unissued, for the purpose of constructing roads.

Other Relevant Factors

Relationship to the City of Houston

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

Economic Dependency

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

Since inception, the developer has advanced \$228,099, net of repayments, to the District for operations. These advances have been recorded as liabilities in the government-wide financial statements.

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Management's Discussion and Analysis (Continued)
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Contingencies

The developer of the District is constructing facilities on behalf of the District within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales to the extent approved by the Commission, as applicable. The District's engineer has stated that current construction amounts are approximately \$4,565,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Subsequent Event

On July 22, 2022, the District issued its Series 2022 unlimited tax bonds in the amount of \$4,740,000 at a net effective interest rate of approximately 4.82 percent. The bonds were sold to repay the Series 2021 bond anticipation note and reimburse the developer for projects constructed within the District.

Harris County Municipal Utility District No. 565
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2022

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 371,618	\$ 4,620	\$ 376,238	\$ -	\$ 376,238
Receivables:					
Property taxes	12,458	-	12,458	-	12,458
Service accounts	49,583	-	49,583	-	49,583
Prepaid expenditures	34,949	-	34,949	-	34,949
Capital assets (net of accumulated depreciation):					
Land and improvements	-	-	-	3,196,172	3,196,172
Construction in progress	-	-	-	98,840	98,840
Infrastructure	-	-	-	5,620,533	5,620,533
Road facilities	-	-	-	3,518,358	3,518,358
Total assets	\$ 468,608	\$ 4,620	\$ 473,228	\$ 12,433,903	\$ 12,907,131

Harris County Municipal Utility District No. 565
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
May 31, 2022

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Liabilities					
Accounts payable	\$ 338,114	\$ -	\$ 338,114	\$ -	\$ 338,114
Accrued interest payable	-	-	-	30,240	30,240
Customer deposits	28,191	-	28,191	-	28,191
Unearned tap connection fees	73,476	-	73,476	-	73,476
Long-term liabilities, due after one year	-	-	-	13,237,099	13,237,099
Total liabilities	<u>439,781</u>	<u>0</u>	<u>439,781</u>	<u>13,267,339</u>	<u>13,707,120</u>
Deferred Inflows of Resources					
Deferred property tax revenues	<u>12,458</u>	<u>0</u>	<u>12,458</u>	<u>(12,458)</u>	<u>0</u>
Fund Balances/Net Position					
Fund balances:					
Nonspendable, prepaid expenditures	34,949	-	34,949	(34,949)	-
Restricted, water, sewer and drainage	-	4,620	4,620	(4,620)	-
Unassigned	<u>(18,580)</u>	<u>-</u>	<u>(18,580)</u>	<u>18,580</u>	<u>-</u>
Total fund balances	<u>16,369</u>	<u>4,620</u>	<u>20,989</u>	<u>(20,989)</u>	<u>0</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 468,608</u>	<u>\$ 4,620</u>	<u>\$ 473,228</u>		
Net position:					
Net investment in capital assets				(828,816)	(828,816)
Unrestricted				<u>28,827</u>	<u>28,827</u>
Total net position				<u>\$ (799,989)</u>	<u>\$ (799,989)</u>

Harris County Municipal Utility District No. 565
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended May 31, 2022

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues					
Property taxes	\$ 179,798	\$ -	\$ 179,798	\$ 12,453	\$ 192,251
Water service	55,643	-	55,643	-	55,643
Sewer service	77,057	-	77,057	-	77,057
Regional water fee	54,120	-	54,120	-	54,120
Penalty and interest	2,368	-	2,368	-	2,368
Tap connection and inspection fees	576,105	-	576,105	-	576,105
Investment income	1,743	-	1,743	-	1,743
	<u>946,834</u>	<u>0</u>	<u>946,834</u>	<u>12,453</u>	<u>959,287</u>
Expenditures/Expenses					
Service operations:					
Lease payments	135,600	-	135,600	-	135,600
Regional water fee	78,623	-	78,623	-	78,623
Professional fees	114,781	-	114,781	-	114,781
Contracted services	107,561	-	107,561	-	107,561
Utilities	42,588	-	42,588	-	42,588
Repairs and maintenance	188,343	-	188,343	-	188,343
Other expenditures	21,871	145	22,016	23,850	45,866
Tap connections	236,624	-	236,624	-	236,624
Capital outlay	98,840	2,639,790	2,738,630	(2,738,630)	-
Depreciation	-	-	-	260,087	260,087
Debt service:					
Interest and fees	-	-	-	30,240	30,240
Debt issuance costs	79,200	68,544	147,744	-	147,744
	<u>1,104,031</u>	<u>2,708,479</u>	<u>3,812,510</u>	<u>(2,424,453)</u>	<u>1,388,057</u>
Deficiency of Revenues Over Expenditures	<u>(157,197)</u>	<u>(2,708,479)</u>	<u>(2,865,676)</u>	<u>2,436,906</u>	

Harris County Municipal Utility District No. 565
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances (Continued)
Year Ended May 31, 2022

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Other Financing Sources (Uses)					
Bond anticipation notes issued	\$ -	\$ 2,920,000	\$ 2,920,000	\$ (2,920,000)	
Developer advances received	195,000	-	195,000	(195,000)	
Repayment of developer advances	-	(206,901)	(206,901)	206,901	
Total other financing sources	195,000	2,713,099	2,908,099	(2,908,099)	
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses					
	37,803	4,620	42,423	(42,423)	
Change in Net Position					
				(428,770)	\$ (428,770)
Fund Balance (Deficit)/Net Position					
Beginning of year	(21,434)	-	(21,434)	-	(371,219)
End of year	\$ 16,369	\$ 4,620	\$ 20,989	\$ 0	\$ (799,989)

Harris County Municipal Utility District No. 565

Notes to Financial Statements

May 31, 2022

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

Harris County Municipal Utility District No. 565 (the District) was created pursuant to Section 52, Article III, and Section 59, Article XVI, of the Texas Constitution by an Act of the 86th Legislature of the State of Texas, effective June 10, 2019, codified as Chapter 8036, Texas Special District Local Laws Code (the Act). The District operates in accordance with Chapters 49 and 54 of the Texas Water Code, and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the Commission). The principal functions of the District are to finance, construct, own and operate waterworks, wastewater, drainage, park, road and other facilities and to provide such facilities and services to the customers of the District. The District also provides solid waste disposal services.

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

Reporting Entity

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

Government-wide and Fund Financial Statements

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

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

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

The District presents the following major governmental funds:

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

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

Fund Balances – Governmental Funds

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

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

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

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

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

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

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

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Notes to Financial Statements

May 31, 2022

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Deferred Outflows and Inflows of Resources

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

Pension Costs

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

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Notes to Financial Statements

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Use of Estimates

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

Investments and Investment Income

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

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

Property Taxes

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

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended May 31, 2022, include collections during the current period or within 60 days of year-end related to the 2021 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended May 31, 2022, the 2021 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

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Capital Assets

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

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

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

	<u>Years</u>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45
Road and paving facilities	10-30

Debt Issuance Costs

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

Long-term Obligations

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

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

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Notes to Financial Statements
May 31, 2022

Net Position/Fund Balances

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 12,433,903
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	12,458
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(30,240)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(13,237,099)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ (820,978)</u>

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

Change in fund balances.	\$ 42,423
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation expense and noncapitalized costs in the current period.	2,454,693

Harris County Municipal Utility District No. 565

Notes to Financial Statements

May 31, 2022

Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer.	\$ 11,901
Governmental funds report proceeds from the sale of bond anticipation notes because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any affect on net position.	(2,920,000)
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.	12,453
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(30,240)</u>
Change in net position of governmental activities.	<u><u>\$ (428,770)</u></u>

Note 2: Deposits, Investments and Investment Income

Deposits

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

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

At May 31, 2022, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and

Harris County Municipal Utility District No. 565

Notes to Financial Statements

May 31, 2022

instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

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

At May 31, 2022, the District had no investments.

Investment Income

Investment income of \$1,743 for the year ended May 31, 2022, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended May 31, 2022, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 624,325	\$ 2,571,847	\$ 3,196,172
Construction in progress	-	98,840	98,840
Total capital assets, non-depreciable	624,325	2,670,687	3,295,012
Capital assets, depreciable:			
Water production and distribution facilities	1,953,928	639,014	2,592,942
Wastewater collection and treatment facilities	330,212	1,712,687	2,042,899
Drainage facilities	664,988	576,769	1,241,757
Road facilities	881,285	2,749,885	3,631,170
Total capital assets, depreciable	3,830,413	5,678,355	9,508,768
Less accumulated depreciation:			
Water production and distribution facilities	(65,642)	(79,951)	(145,593)
Wastewater collection and treatment facilities	(7,338)	(61,762)	(69,100)
Drainage facilities	(14,778)	(27,594)	(42,372)
Road facilities	(22,032)	(90,780)	(112,812)
Total accumulated depreciation	(109,790)	(260,087)	(369,877)
Total governmental activities, net	\$ 4,344,948	\$ 8,088,955	\$ 12,433,903

Harris County Municipal Utility District No. 565
Notes to Financial Statements
May 31, 2022

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended May 31, 2022, were as follows:

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Developer advances	\$ 240,000	\$ 195,000	\$ 206,901	\$ 228,099	\$ -
Bond anticipation note	-	2,920,000	-	2,920,000	-
Due to developer	4,454,738	7,186,863	1,552,601	10,089,000	-
Total governmental activities long-term liabilities	<u>\$ 4,694,738</u>	<u>\$ 10,301,863</u>	<u>\$ 1,759,502</u>	<u>\$ 13,237,099</u>	<u>\$ 0</u>

Bonds voted:

Water sewer and drainage facilities	\$ 255,810,000
Park and recreational facilities	20,410,000
Road facilities	40,000,000

Refunding bonds voted:

Water sewer and drainage facilities	102,325,000
Park and recreational facilities	8,165,000
Road facilities	16,000,000

Due to Developer

The developer within the District has constructed facilities on behalf of the District. The District has agreed to reimburse the developer for these construction costs and interest to the extent approved by the Commission, as applicable, from the proceeds of future bond sales. The District's engineer estimates reimbursable costs for completed projects are \$10,089,000. These amounts have been recorded in the financial statements as long-term liabilities.

Developer Advances

Since inception, the developer has advanced \$228,099, net of repayments, to the District for operations. The District has agreed to pay these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales. These advances have been recorded in the financial statements as long-term liabilities.

Harris County Municipal Utility District No. 565

Notes to Financial Statements

May 31, 2022

Bond Anticipation Note

On November 23, 2021, the District issued its Series 2021 Bond Anticipation Note in the amount of \$2,920,000. The note is dated November 23, 2021, bears interest at the rate of 2.00 percent and matures on November 22, 2022, unless called for earlier redemption. The note is a special limited obligation of the District and is payable solely from the proceeds of bonds, and therefore, has been excluded from the current portion of long-term liabilities. Subsequent to year-end, the bond anticipation note was called for early redemption and repaid from proceeds of the Series 2022 bonds.

Note 5: Maintenance Taxes

At an election held November 5, 2019, voters authorized a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended May 31, 2022, the District levied an ad valorem maintenance tax at the rate of \$1.45 per \$100 of assessed valuation, which resulted in a tax levy of \$192,251 on the taxable valuation of \$13,258,696 for the 2021 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

At an election held November 5, 2019, voters authorized a road facilities maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended May 31, 2022, the District did not levy an ad valorem road facilities maintenance tax.

At an election held November 5, 2019, voters authorized a park and recreational facilities maintenance tax not to exceed \$0.10 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended May 31, 2022, the District did not levy an ad valorem park and recreational facilities maintenance tax.

Note 6: Operating Lease

On November 11, 2019, the District entered into an agreement to lease a 100,000 gallons-per-day wastewater treatment plant. Monthly lease payments of \$11,300 will commence on the first day of the month following substantial completion of the installation of the leased equipment and continue for a term of 60 months. After the initial term, the lease continues on a month-to-month basis with monthly payments of \$8,000. During the current year the District recorded \$135,600 in expenditures related to the lease. Future minimum annual lease payments are 2023 - \$135,600; 2024 - \$135,600; 2025 - \$135,600; and 2026 - \$22,600.

On May 25, 2022, the District entered into an agreement to lease an additional 100,000 gallons-per-day wastewater treatment plant. Monthly lease payments of \$8,750 will commence on the first day of the month following substantial completion of the installation of the leased equipment and continue for a term of 60 months. After the initial term, the lease continues on a month-to-month basis with monthly payments of \$4,750. As of May 31, 2022, the lease had not commenced.

Harris County Municipal Utility District No. 565

Notes to Financial Statements

May 31, 2022

Note 7: Regional Water Authority

The District is within the boundaries of the North Harris County Regional Water Authority (the Authority) which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Subsidence District, which regulates groundwater withdrawal. As of May 31, 2022, the Authority was billing the District \$4.60 per 1,000 gallons of water pumped from its wells. This amount is subject to future increases.

Note 8: Risk Management

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

Note 9: Economic Dependency

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

Note 10: Contingencies

The developer of the District is constructing facilities on behalf of the District within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales to the extent approved by the Commission, as applicable. The District's engineer has stated that current construction amounts are approximately \$4,565,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Note 11: Subsequent Event

On July 22, 2022, the District issued its Series 2022 unlimited tax bonds in the amount of \$4,740,000 at a net effective interest rate of approximately 4.82 percent. The bonds were sold to repay the Series 2021 bond anticipation note and reimburse the developer for projects constructed within the District.

Required Supplementary Information

Harris County Municipal Utility District No. 565
Budgetary Comparison Schedule – General Fund
Year Ended May 31, 2022

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 179,252	\$ 179,252	\$ 179,798	\$ 546
Water service	10,000	10,000	55,643	45,643
Sewer service	21,500	21,500	77,057	55,557
Regional water fee	14,000	14,000	54,120	40,120
Penalty and interest	500	500	2,368	1,868
Tap connection and inspection fees	215,865	215,865	576,105	360,240
Investment income	-	-	1,743	1,743
	<u>441,117</u>	<u>441,117</u>	<u>946,834</u>	<u>505,717</u>
Total revenues	<u>441,117</u>	<u>441,117</u>	<u>946,834</u>	<u>505,717</u>
Expenditures				
Service operations:				
Lease payments	135,600	135,600	135,600	-
Regional water fee	20,000	20,000	78,623	(58,623)
Professional fees	80,000	60,000	114,781	(54,781)
Contracted services	51,515	51,515	107,561	(56,046)
Utilities	13,000	13,000	42,588	(29,588)
Repairs and maintenance	126,625	99,725	188,343	(88,618)
Other expenditures	19,015	19,015	21,871	(2,856)
Tap connections	84,000	84,000	236,624	(152,624)
Capital outlay	-	-	98,840	(98,840)
Debt service, debt issuance costs	-	-	79,200	(79,200)
	<u>529,755</u>	<u>482,855</u>	<u>1,104,031</u>	<u>(621,176)</u>
Total expenditures	<u>529,755</u>	<u>482,855</u>	<u>1,104,031</u>	<u>(621,176)</u>
Deficiency of Revenues Over Expenditures	(88,638)	(41,738)	(157,197)	(115,459)
Other Financing Sources				
Developer advances received	88,638	88,638	195,000	106,362
	<u>88,638</u>	<u>88,638</u>	<u>195,000</u>	<u>106,362</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	46,900	37,803	(9,097)
Fund Balance (Deficit), Beginning of Year	<u>(21,434)</u>	<u>(21,434)</u>	<u>(21,434)</u>	<u>-</u>
Fund Balance (Deficit), End of Year	<u>\$ (21,434)</u>	<u>\$ 25,466</u>	<u>\$ 16,369</u>	<u>\$ (9,097)</u>

Harris County Municipal Utility District No. 565
Notes to Required Supplementary Information
May 31, 2022

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was amended during 2022.

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

**Supplementary Information
(Not Subjected to Audit Procedures)**

Harris County Municipal Utility District No. 565
Other Schedules Included Within This Report
May 31, 2022

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

- Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 15-25
- Schedule of Services and Rates
- Schedule of General Fund Expenditures
- Schedule of Temporary Investments – Not Applicable
- Analysis of Taxes Levied and Receivable
- Schedule of Long-term Debt Service Requirements by Years – Not Applicable
- Changes in Long-term Bonded Debt – Not Applicable
- Comparative Schedule of Revenues and Expenditures – General Fund – Two Years
- Board Members, Key Personnel and Consultants

Harris County Municipal Utility District No. 565

Schedule of Services and Rates

Year Ended May 31, 2022

1. Services provided by the District:

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" type="checkbox"/> Drainage
<input checked="" type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input checked="" type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input type="checkbox"/> Security
<input checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input checked="" type="checkbox"/> Roads
<input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other _____		

2. Retail service providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 18.00	5,000	N	\$ 1.75	5,001 to 10,000
				\$ 2.00	10,001 to 20,000
				\$ 2.50	20,001 to No Limit
Wastewater:	\$ 37.90	5,000	Y		
Regional water fee:	\$ 5.06	5,000	N	\$ 5.06	5,001 to No Limit
Does the District employ winter averaging for wastewater usage?					Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Total charges per 10,000 gallons usage (including fees):			Water	\$ 77.35	Wastewater \$ 37.90

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	460	459	x1.0	459
1"	-	-	x2.5	-
1 1/2"	-	-	x5.0	-
2"	6	6	x8.0	48
3"	-	-	x15.0	-
4"	-	-	x25.0	-
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	466	465		507
Total wastewater	460	459	x1.0	459

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

Gallons pumped into the system:	21,022
Gallons billed to customers:	18,072
Water accountability ratio (gallons billed/gallons pumped):	85.97%

*"ESFC" means equivalent single-family connections

Harris County Municipal Utility District No. 565
Schedule of General Fund Expenditures
Year Ended May 31, 2022

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	12,200	
Legal		48,648	
Engineering		53,933	
Financial advisor		-	114,781
		<hr/>	
Purchased Services for Resale			
Bulk water and wastewater service purchases			-
Regional Water Fee			78,623
Contracted Services			
Bookkeeping		5,048	
General manager		-	
Appraisal district		1,113	
Tax collector		11,918	
Security		-	
Other contracted services		72,744	90,823
		<hr/>	
Utilities			42,588
Repairs and Maintenance			188,343
Administrative Expenditures			
Directors' fees		4,350	
Office supplies		-	
Insurance		9,903	
Other administrative expenditures		7,618	21,871
		<hr/>	
Capital Outlay			
Capitalized assets		98,840	
Expenditures not capitalized		-	98,840
		<hr/>	
Tap Connection Expenditures			236,624
Solid Waste Disposal			16,738
Fire Fighting			-
Parks and Recreation			-
Other Expenditures - Lease Payments			135,600
Other Expenditures - Debt Issuance Costs			79,200
			<hr/>
Total expenditures		\$	<u>1,104,031</u>

Harris County Municipal Utility District No. 565
Analysis of Taxes Levied and Receivable
Year Ended May 31, 2022

	Maintenance Taxes
Receivable, Beginning of Year	\$ 5
2021 Original Tax Levy	132,800
Additions and corrections	59,451
Adjusted tax levy	192,251
Total to be accounted for	192,256
Tax collections: Current year	(179,793)
Prior years	(5)
Receivable, end of year	\$ 12,458

Receivable, by Years	
2021	\$ 12,458

	2021	2020	2019
Property Valuations			
Land	\$ 13,236,820	\$ 4,281,510	\$ 2,591,372
Improvements	-	-	-
Personal property	21,876	-	-
Exemptions	-	-	-
Total property valuations	\$ 13,258,696	\$ 4,281,510	\$ 2,591,372

Tax Rates per \$100 Valuation			
Maintenance tax rates*	\$ 1.4500	\$ 1.4500	\$ 1.4500

Tax Levy	\$ 192,251	\$ 62,081	\$ 37,575
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Percent of Taxes Collected to Taxes Levied**	94%	100%	100%
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*Maximum tax rate approved by voters: \$1.50 on November 5, 2019

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

Harris County Municipal Utility District No. 565
Comparative Schedule of Revenues and Expenditures – General Fund
Two Years Ended May 31,

	<u>Amounts</u>		<u>Percent of Fund Total Revenues</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
General Fund				
Revenues				
Property taxes	\$ 179,798	\$ 62,076	19.0 %	29.2 %
Water service	55,643	10,606	5.9	4.9
Sewer service	77,057	12,710	8.1	6.0
Regional water fee	54,120	12,348	5.7	5.8
Penalty and interest	2,368	315	0.3	0.2
Tap connection and inspection fees	576,105	114,831	60.8	53.9
Investment income	1,743	27	0.2	0.0
	<u>946,834</u>	<u>212,913</u>	<u>100.0</u>	<u>100.0</u>
Total revenues				
Expenditures				
Service operations:				
Lease payments	135,600	113,000	14.3	53.1
Regional water fee	78,623	12,439	8.3	5.8
Professional fees	114,781	67,033	12.1	31.5
Contracted services	107,561	36,493	11.4	17.1
Utilities	42,588	19,353	4.5	9.1
Repairs and maintenance	188,343	87,808	19.9	41.2
Other expenditures	21,871	15,521	2.3	7.3
Tap connections	236,624	48,344	25.0	22.7
Capital outlay	98,840	-	10.4	-
Debt service, debt issuance costs	79,200	-	8.4	-
	<u>1,104,031</u>	<u>399,991</u>	<u>116.6</u>	<u>187.8</u>
Total expenditures				
Deficiency of Revenues Over Expenditures	(157,197)	(187,078)	<u>(16.6) %</u>	<u>(87.8) %</u>
Other Financing Sources				
Developer advances received	195,000	142,000		
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses				
	37,803	(45,078)		
Fund Balance (Deficit), Beginning of Year	(21,434)	23,644		
Fund Balance (Deficit), End of Year	<u>\$ 16,369</u>	<u>\$ (21,434)</u>		
Total Active Retail Water Connections	<u>465</u>	<u>76</u>		
Total Active Retail Wastewater Connections	<u>459</u>	<u>74</u>		

Harris County Municipal Utility District No. 565
Board Members, Key Personnel and Consultants
Year Ended May 31, 2022

Complete District mailing address:	Harris County Municipal Utility District No. 565 c/o Coats Rose, P.C. 9 Greenway Plaza, Suite 1000 Houston, Texas 77046
District business telephone number:	713.651.0111
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	January 22, 2020
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Taylor Lewis Gaver	Appointed 06/19- 05/24	\$ 1,200	\$ 0	President
Kevin Kulhanek	Elected 05/22- 05/26	1,050	257	Vice President
Brandy Botter	Appointed 06/19- 05/24	750	46	Secretary
Amy Koy	Appointed 06/19- 05/24	750	103	Assistant Secretary
Tiffany Melchers	Elected 05/22- 05/26	600	0	Assistant Secretary

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

Harris County Municipal Utility District No. 565
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2022

Consultants	Date Hired	Fees and Expense Reimbursements	Title
B&A Municipal Tax Service, LLC	06/20/19	\$ 13,287	Tax Assessor/ Collector
BKD, LLP	05/28/21	19,100	Auditor
Coats Rose, P.C.	06/20/19	48,648 32,444	General Counsel Bond Counsel
Costello, Inc	06/20/19	230,773	Engineer
Harris County Appraisal District	Legislative Action	1,113	Appraiser
L&S District Services, LLC	06/20/19	5,048	Bookkeeper
Masterson Advisors, LLC	06/20/19	22,700	Financial Advisor
Si Environmental, LLC	07/30/19	448,742	Operator
Investment Officer			
Debra Loggins	06/20/19	N/A	Bookkeeper

APPENDIX B

Specimen Municipal Bond Insurance Policy



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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