

OFFICIAL STATEMENT DATED OCTOBER 22, 2020

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. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE NOT BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

NEW ISSUE-Book-Entry Only

\$4,000,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX ROAD BONDS
SERIES 2020

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 558 (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 Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. THE BONDS ARE SUBJECT TO RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."

Dated Date: November 1, 2020

Due: September 1, as shown below

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., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from November 1, 2020, and is payable each March 1 and September 1, commencing March 1, 2021, 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 in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the Registered Owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

MATURITY SCHEDULE

Principal	Maturity	CUSIP	Interest	Initial	Principal	Maturity	CUSIP	Interest	Initial
Amount	(September 1)	Number(b)	Rate	Reoffering Yield(c)	Amount	(September 1)	Number(b)	Rate	Reoffering Yield(c)
\$ 110,000	2022	41429T BB8	2.000 %	1.650 %	\$ 165,000	2034 (a)	41429T BP7	2.900 %	2.900 %
115,000	2023	41429T BC6	2.000	1.750	****	****	****	****	****
115,000	2024	41429T BD4	2.000	1.900	185,000	2037 (a)	41429T BS1	3.000	3.030
120,000	2025	41429T BE2	2.000	2.000	190,000	2038 (a)	41429T BT9	3.000	3.070
125,000	2026 (a)	41429T BF9	2.100	2.100	195,000	2039 (a)	41429T BU6	3.000	3.100
130,000	2027 (a)	41429T BG7	2.200	2.200	200,000	2040 (a)	41429T BV4	3.000	3.125
135,000	2028 (a)	41429T BH5	2.300	2.300	210,000	2041 (a)	41429T BW2	3.000	3.140
140,000	2029 (a)	41429T BJ1	2.400	2.400	215,000	2042 (a)	41429T BX0	3.000	3.150
145,000	2030 (a)	41429T BK8	2.500	2.500	225,000	2043 (a)	41429T BY8	3.125	3.170
150,000	2031 (a)	41429T BL6	2.600	2.600	230,000	2044 (a)	41429T BZ5	3.125	3.180
155,000	2032 (a)	41429T BM4	2.700	2.700	240,000	2045 (a)	41429T CA9	3.125	3.200
160,000	2033 (a)	41429T BN2	2.800	2.800					

\$345,000 Term Bonds due September 1, 2036 (a), 41429T BR3 (b), 3.00% Interest Rate, 3.00% Yield (c)

- (a) Bonds maturing on or after September 1, 2026, 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, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) 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."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the respective Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS." Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about November 19, 2020.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

This OFFICIAL STATEMENT 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, resolutions, 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 Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

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 OFFICIAL STATEMENT—Updating the Official Statement."

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 RBC Capital Markets, LLC (the “Underwriter”) bearing the interest rates shown on the cover page hereof, at a price of 97.00% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.119184%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (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 utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Securities Laws

No registration statement relating to the 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 and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

OFFICIAL STATEMENT SUMMARY

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

INFECTIOUS DISEASE OUTLOOK (COVID-19)

General...

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

Impact...

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

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

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of the Pandemic could have an adverse effect on the District’s operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition. See “RISK FACTORS—Infectious Disease Outlook (COVID-19).”

THE DISTRICT

Description...

Harris County Municipal Utility District No. 558 (the “District”), a political subdivision of the State of Texas, was created by the Texas Commission on Environmental Quality (“TCEQ”) on February 11, 2019, and operates under Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended and other statutes of Texas applicable to municipal utility districts. The District includes approximately 372 acres of land within its boundaries. See “THE DISTRICT.”

Location...

The District is located in Harris County approximately 35 miles northwest of the City of Houston central business district. The District is located south of Waller-Tomball Road, immediately east of Mueschke Road and immediately north of Texas State Highway 99 (the Grand Parkway). The District lies entirely within the extraterritorial jurisdiction of the City of Houston and is located within the Tomball Independent School District. See “THE DISTRICT” and “AERIAL LOCATION MAP.”

The Developers...

GP 344 Ltd., a Texas limited partnership (“GP 344”) and Beazer Homes Texas, LP, a Texas limited partnership (“Beazer Homes”) have entered into a joint development agreement for the purpose of acquiring approximately 372 acres within the District and developing such land. Pursuant to the Development Agreement, GP 344 and Beazer Homes each retain a fifty percent (50%) undivided interest in the approximate 372 acres not sold to builders or ultimate users. GP 344 and Beazer Homes are herein referred to as the “Developers.” See “THE DEVELOPERS.”

<i>Status of Development...</i>	<p>The District is being developed as Amira, a single-family residential community. As of September 24 1, 2020, there were 614 single-family residential lots developed on approximately 159 acres, 223 homes were completed (219 occupied and 4 unoccupied), 123 new homes were under construction or in the name of a homebuilder, and 268 developed lots were available for home construction in the District. Home values within the District range from approximately \$230,000 to over \$450,000.</p> <p>The Resort at Amira, a recreation and activity center, has been completed on approximately four acres within the District and includes a 7,000-square-foot clubhouse with a fitness room, children’s reading nook, kitchen, swimming pool and a yoga studio. Community facilities within the District also include an event lawn, a playground and a dog park. Ponds, lakes and channels throughout the District have landscaped walking paths and sitting areas.</p> <p>The remainder of the District consists of approximately 165 acres of developable but undeveloped property and approximately 48 acres of undevelopable land (utility sites, drainage and easements). See “THE DISTRICT—Land Use” and “—Status of Development.”</p>
<i>Builders...</i>	Perry Homes and Beazer Homes are the sole builders in the District. See “THE DEVELOPERS.”
<i>Payment Record...</i>	The District has previously issued \$7,100,000 principal amount of unlimited tax bonds for water, sewer and drainage purposes in one series, all of which remains outstanding (the “Outstanding Bonds”) as of the date hereof. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.” The Bonds are the District’s first issuance of unlimited tax bonds for road facilities. The District capitalized twenty-four (24) months of interest from proceeds of the Outstanding Bonds in September 2020 and will capitalize twenty-four months (24) months of interest from proceeds of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

THE BONDS

<i>Description...</i>	<p>The \$4,000,000 Harris County Municipal Utility District No. 558 Unlimited Tax Road Bonds, Series 2020 (the “Bonds”) are being issued pursuant to a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the District’s Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature serially on September 1 in each of the years 2022 through 2034, both inclusive, and 2037 through 2045, both inclusive, and as term bonds on September 1, 2036 (the “Term Bonds”) in the principal amounts and pay interest at the rates shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from November 1, 2020, and is payable March 1, 2021, and each September 1 and March 1 thereafter, until the earlier of maturity or redemption. See “THE BONDS.”</p>
<i>Book-Entry-Only System...</i>	<p>The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”</p>
<i>Redemption...</i>	<p>Bonds maturing on or after September 1, 2026, are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”</p>
<i>Use of Proceeds...</i>	<p>Proceeds of the Bonds will be used to pay for the items shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS,” including to capitalize twenty-four (24) months of interest on the Bonds; pay interest on funds advanced by the Developers on behalf of the District; and pay engineering fees, administrative costs, and certain other costs related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”</p>

<i>Authority for Issuance...</i>	The Bonds are the first series of bonds issued out of an aggregate of \$35,000,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of constructing or acquiring road facilities and for refunding such bonds. The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See "RISK FACTORS—Future Debt," "THE BONDS—Authority for Issuance," and "—Issuance of Additional Debt."
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations 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. See "THE BONDS—Source of Payment."
<i>Municipal Bond Rating...</i>	The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made.
<i>Not Qualified Tax-Exempt Obligations...</i>	The Bonds have <u>not</u> been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See "MANAGEMENT OF THE DISTRICT" and "LEGAL MATTERS."
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See "MANAGEMENT OF THE DISTRICT."
<i>Disclosure Counsel...</i>	Norton Rose Fulbright US, LLP, Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., 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 investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned "RISK FACTORS."

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2020 Taxable Assessed Valuation.....	\$49,397,952	(a)
Estimated Taxable Assessed Valuation as of August 15, 2020.....	\$98,217,676	(b)
Gross Direct Debt Outstanding	\$11,100,000	(c)
Estimated Overlapping Debt	<u>2,891,761</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$13,991,761	
Ratios of Gross Direct Debt to:		
2020 Taxable Assessed Valuation	22.47%	
Estimated Taxable Assessed Valuation as of August 15, 2020.....	11.30%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2020 Taxable Assessed Valuation.....	28.32%	
Estimated Taxable Assessed Valuation as of August 15, 2020.....	14.25%	
Debt Service Funds Available:		
Twenty-Four (24) Months of Capitalized Interest from the Outstanding Bonds (Water Sewer & Drainage)	\$373,140	(e)
Twenty-Four (24) Months of Capitalized Interest from the Bonds (Road)	<u>220,088</u>	(f)
Total Debt Service Funds Available	\$593,228	
Operating Funds Available as of September 24, 2020	\$27,246	(g)
2020 Debt Service Tax Rate.....	\$0.35	
2020 Maintenance Tax Rate.....	<u>1.00</u>	
2020 Total Tax Rate.....	\$1.35	
Average Annual Debt Service Requirement (2021-2045).....	\$635,295	(h)
Maximum Annual Debt Service Requirement (2045)	\$695,985	(h)
Tax Rates Required to Pay Average Annual Debt Service (2021-2045) at a 90% Collection Rate		
Based upon 2020 Taxable Assessed Valuation	\$1.43	(i)
Based upon Estimated Taxable Assessed Valuation as of August 15, 2020	\$0.72	(i)
Tax Rates Required to Pay Maximum Annual Debt Service (2045) at a 90% Collection Rate		
Based upon 2020 Taxable Assessed Valuation	\$1.57	(i)
Based upon Estimated Taxable Assessed Valuation as of August 15, 2020	\$0.79	(i)
Status of Development as of September 24, 2020(j):		
Total Lots Constructed	614	
Homes Completed (219 Occupied)	223	
Homes Under Construction or in a Builder's Name.....	123	
Lots Available for Construction	268	
Estimated Population	767	(k)

- (a) The Harris County Appraisal District (the "Appraisal District") has certified \$43,792,353 of taxable value and an additional \$5,605,599 of taxable value remains uncertified. According to the Appraisal District, the uncertified value represents the landowner's opinion of the taxable value; however, such value could be subject to downward revision. No tax will be levied on the uncertified value until it is certified. The 2020 Taxable Valuation shown throughout this OFFICIAL STATEMENT is the certified value plus the uncertified value. See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on August 15, 2020. Increases in value that occur between January 1, 2020, and December 31, 2020, will be assessed for purposes of taxation on January 1, 2021. No tax will be levied on such amount until it is certified. See "TAXING PROCEDURES."
- (c) The Outstanding Bonds and the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) Represents twenty-four (24) months of capitalized interest from proceeds of the Outstanding Bonds.
- (f) The District will capitalize twenty-four (24) months of interest on the Bonds that will be deposited in the Road Debt Service Fund. Funds in the Water, Sewer and Drainage Debt Service Fund are available to pay debt service on the bonds issued for water, sewer and drainage facilities and are not available to pay debt service on bonds issued for road facilities, including the Bonds. Funds in the Road Debt Service Fund are available to pay debt service on bonds issued for road facilities, including the Bonds and are not available to pay debt service on the bonds issued for water, sewer and drainage facilities, including the Outstanding Bonds. See "THE BONDS—Funds."
- (g) See "RISK FACTORS—Operating Funds."
- (h) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (i) See "RISK FACTORS—Possible Impact on District Tax Rates" and "TAX DATA—Tax Adequacy for Debt Service."
- (j) See "THE DISTRICT—Land Use" and "—Status of Development."
- (k) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558 *(A political subdivision of the State of Texas located within Harris County)*

\$4,000,000

UNLIMITED TAX ROAD BONDS SERIES 2020

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Municipal Utility District No. 558 (the “District”) of its \$4,000,000 Unlimited Tax Road Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas; a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”); and an election held within the District.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, and development in the District by GP 344, Ltd., a Texas limited partnership (“GP 344”), Beazer Homes of Texas, LP, a Texas limited partnership (“Beazer Homes”) and Johnson Development Services. GP 344 and Beazer Homes are collectively referred to herein as the “Developers.” 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 Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027 upon payment of the costs of duplication therefore.

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 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 taxable property within the District will 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 and Bankruptcy Limitations” herein.

Infectious Disease Outbreak (COVID-19)

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

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

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

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

The District continues to monitor the spread of the Pandemic and is monitoring directives from local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. Accordingly, the financial and operating data herein is not indicative of the economic impact of the Pandemic on the District's financial condition.

Potential Effects of Oil Price Declines on the Houston Area

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value from single-family residences and developed lots. The market value of such properties is related to general economic conditions affecting the demand for properties. Demand for residential tracts and the construction of residential dwellings on vacant lots can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability, energy prices and the prosperity and demographic characteristics of the urban center toward which the marketing of such properties 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.

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 the Developers or property owners to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 35 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of the District's 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 or a 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 of or reduce the District's property tax base. See "Infectious Disease Outbreak (COVID 19)" in this section.

Competition

The demand for and construction of single-family homes in the District, which is 35 miles from downtown Houston, could be affected by competition from other developments, including other residential and multi-family developments located in the western and northwestern portion of the Houston area market. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of Perry Homes and Beazer Homes in the sale of single-family residential 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 and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developers or builders will be implemented or, if implemented, will be successful.

Undeveloped Acreage and Vacant Lots

There are approximately 165 developable acres that have not been fully provided with water, wastewater and storm drainage facilities and paving necessary to the construction of taxable improvements. In addition, 268 developed lots remain vacant. The District makes no representation as to when or if development of this acreage will occur or the timing of new home construction. See “THE DISTRICT—Land Use—Status of Development.”

Dependence on Principal Taxpayers

The principal taxpayers in the District represent \$23,740,747 or 54.21% of the certified portion (\$43,792,353) of the 2020 Taxable Assessed Valuation of \$49,397,952, which represents ownership as of January 1, 2020. The Developers represent \$21,480,483 or 49.06% of the certified portion of the 2020 Taxable Assessed Valuation. See “THE DEVELOPERS” and “TAX DATA—Principal Taxpayers.” Principal taxpayer lists related to the uncertified portion (\$5,605,599) of the 2020 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of August 15, 2020, of \$98,217,676 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 Resolution, 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 Developers have informed the District that their respective current plans are to continue building homes and marketing lots and tracts. Neither the Developers 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 Developers 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 Developers or any other landowners.

Operating Funds

The District’s current primary source of operating revenue is maintenance tax revenue and advances from the Developers. The District levied a 2019 maintenance tax rate in the amount of \$1.35 per \$100 of taxable assessed valuation. The District expects to levy its initial debt service tax rate in 2020 and reduce the maintenance tax to \$1.00. The District’s General Fund balance as of September 24, 2020 was \$27,246. The revenue produced from a reduced 2020 maintenance tax rate may not be sufficient to offset the operating expenses of the District. Continued maintenance of a positive General Fund balance may depend upon (1) cash subsidies from the Developers, and (2) continued development and increased amounts of maintenance tax revenue. If funds from these sources are not forthcoming, the District would have to increase its maintenance tax rate. See “Dependence on Principal Taxpayers” herein, “THE DEVELOPERS,” “THE SYSTEM—Water and Wastewater Operations” and “TAX DATA—Principal Taxpayers.”

Landowner Obligation to the District

There are no commitments from or obligations of the Developers, or any landowner, to the District to proceed at any particular rate or according to any specified plan with the development of land or construction of improvements in the District, and there is no restriction on any landowner’s right to sell its land. Failure to construct taxable improvements on developed tracts of land or developed lots would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds the District will increase or maintain its taxable property. See “THE DEVELOPERS.”

Possible Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2020 Taxable Assessed Valuation is \$49,397,952 (\$43,792,353 of certified value and \$5,605,599 of uncertified value). After issuance of the Bonds, the maximum annual debt service requirement will be \$695,985 (2045), and the average annual debt service requirement will be \$635,295 (2021-2045 inclusive). Assuming no increase or decrease from the 2020 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$1.57 and \$1.43 and per \$100 of taxable assessed valuation at a ninety percent (90%) collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. The Estimated Taxable Assessed Valuation as of August 15, 2020, is \$98,217,676, which reduces the above calculations to \$0.79 and \$0.72 per \$100 of taxable assessed valuation, respectively. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and “TAX DATA—Tax Adequacy for Debt Service.”

No representation or suggestion is made that the uncertified portion of the 2020 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of August 15, 2020, provided by the Appraisal District for the District 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.”

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.

The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017 and brought historic levels of rainfall during the successive four days.

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.

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.

Atlas 14

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-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 WATER, WASTEWATER AND DRAINAGE SYSTEM—Atlas 14.”

Tax Collections Limitations and Foreclosure Remedies

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

Registered Owners' Remedies and Bankruptcy Limitations

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

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. The District's voters have authorized a total of \$35,000,000 principal amount of unlimited tax bonds for acquiring or constructing road facilities and refunding such bonds, \$205,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sewer and drainage facilities and refunding such bonds and \$23,000,000 principal amount of unlimited tax bonds for acquiring or constructing park and recreational facilities and refunding such bonds. After the issuance of the Bonds, \$31,000,000 principal amount of unlimited tax bonds for road facilities and for refunding such bonds, \$197,900,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities and for refunding such bonds, and all of the unlimited tax bonds authorized for park and recreational facilities and for refunding such bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. 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.

To date, the Developers have advanced certain funds for construction of facilities for which they have not been reimbursed. After payments are made with Bond proceeds, the District will continue to owe the Developers approximately \$14,700,000 plus interest for funds advanced to construct water, sewer and drainage facilities, roads, and parks and recreational facilities. The District intends to issue additional bonds in order to reimburse the Developers for the current amount outstanding and to develop the remainder of undeveloped but developable land (approximately 165 acres). 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. However, under existing State law, the outstanding principal amount of bonds issued to finance parks and recreational facilities may not exceed 1% of the District's certified value. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities and park and recreational facilities, but not road facilities, must be approved by the TCEQ.

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."

Environmental Regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

The District’s stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the “Current Permit”) issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District’s inclusion in the MS4 Permit were required at a future date, the District could incur substantial costs to develop, 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.

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR became effective June 22, 2020, and is currently the subject of ongoing litigation.

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

Marketability of the Bonds

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

Changes in Tax Legislation

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

Continuing Compliance with Certain Covenants

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

THE BONDS

Description

The Bonds will be dated and accrue interest from November 1, 2020, with interest payable each March 1 and September 1, beginning March 1, 2021 (the "Interest Payment Date"), and will mature on the dates and in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

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

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

Source of Payment

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

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

No Arbitrage

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

Funds

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

The Road Debt Service Funds is available for payment of principal and interest on bonds issued for road facilities, such as the Bonds. It is not available to pay principal or interest on bonds issued for water, sewer and drainage facilities, such as the Outstanding Bonds.

The District maintains a Water/Sewer/Drainage Debt Service Fund that is available for payment of debt service on bonds issued for water, sewer and drainage facilities, such as the Outstanding Bonds. It is not available to pay principal or interest on bonds issued for road facilities, such as the Bonds.

Accrued interest on the Bonds and twenty-four (24) months of capitalized interest shall be deposited into the Road Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Road Capital Projects Fund, to be used for the purpose of reimbursing the Developers for certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Road Capital Projects Fund will be used as described in the Bond Resolution or ultimately transferred to the Road Debt Service Fund. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Redemption Provisions

Mandatory Redemption: The Bonds maturing on September 1, 2036 (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), 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):

\$345,000 Term Bonds	
Due September 1, 2036	
Mandatory Redemption Date	Principal Amount
2035	\$ 170,000
2036 (maturity)	175,000

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

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2025, or 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 less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Authority for Issuance

At a bond election held within the District on May 4, 2019, voters of the District authorized the issuance of \$35,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing road facilities and for refunding such bonds. The Bonds are being issued pursuant to such authorization. See "Issuance of Additional Debt" herein.

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

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.

Registration and Transfer

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

In the event the Book-Entry-Only System should be 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 form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

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

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

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

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 Bond. 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.

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

The District's voters have authorized the issuance of \$35,000,000 principal amount of unlimited tax bonds for road facilities and refunding such bonds, \$205,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sewer and drainage facilities and refunding such bonds and \$23,000,000 principal amount of unlimited tax bonds for park and recreational facilities and refunding such bonds, and could authorize additional amounts. After the issuance of the Bonds, \$31,000,000 principal amount of unlimited tax bonds for road facilities and for refunding such bonds, \$197,900,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities and for refunding such bonds, and all of the unlimited tax bonds authorized for park and recreational facilities and for refunding such bonds will remain authorized but unissued. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed fire plan and bonds for such purposes by the qualified voters in the District; (b) approval of the fire plan and bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered developing a fire plan or calling an election at this time for such purposes. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park project and bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. Under existing State law, the outstanding principal amount of park bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has approved a park plan and, at an election held on May 4, 2019, and voters of the District authorized the issuance of \$23,000,000 in unlimited tax bonds for the purpose of purchasing or constructing parks and recreational facilities, all of which remains authorized but unissued.

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, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City of Houston and the District specifying the procedures for full purpose annexation of all or a portion of the District.

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

Consolidation

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "RISK FACTORS—Registered Owners' Remedies and Bankruptcy Limitations."

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry 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 of each series, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities

Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not 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).

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Costello, Inc., the District's engineer (the "Engineer"). Non-construction costs are based upon either contract amounts, or estimates of various costs by 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 completion of agreed-upon procedures by the District's auditor. Surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used.

I. CONSTRUCTION COSTS

• Amira Drive Paving Improvements.....	\$ 1,647,850
• Cypress Heights Drive and Long Canter Trail Paving Improvements.....	640,899
• Amira Drive Street Dedication Section 1 Land Costs.....	335,129
• Long Canter Trail Street Dedication Section 1 and Reserves Land Costs.....	226,428
• Engineering.....	288,118
Total Construction Costs.....	\$ 3,138,424

II. NON-CONSTRUCTION COSTS

• Underwriter's Discount.....	\$ 120,000
• Capitalized Interest (24 Months) (a).....	220,088
• Developer Interest.....	210,188
Total Non-Construction Costs.....	\$ 550,276

III. ISSUANCE COSTS AND FEES

• Issuance Costs and Professional Fees.....	\$ 229,388
• Engineering Fee.....	18,000
• Attorney General Fee.....	4,000
• Contingency (a).....	59,913
Total Issuance Costs and Fees.....	\$ 311,301
TOTAL BOND ISSUE.....	\$ 4,000,000

(a) Contingency represents the difference in the estimated and actual amount of capitalized interest on the Bonds.

THE DISTRICT

General

The District is a political subdivision of the State of Texas, was created by the TCEQ on February 11, 2019, and the District operates under Article III, Section 52 and Article XVI, Section 59, of the Texas Constitution in accordance with Chapters 49 and 54 of the Texas Water Code, as amended and other statutes of Texas applicable to municipal utility districts. The District includes approximately 372 acres of land within its boundaries.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities, and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the City of Houston, the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and roads. See “THE BONDS—Issuance of Additional Debt.”

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City of Houston, within whose extraterritorial jurisdiction the District lies, the District is required to observe certain requirements of the City of Houston which: limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, drainage, road, and recreational facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; and require certain public facilities to be designed in accordance with applicable City of Houston standards. Construction and operation of the District’s system is subject to the regulatory jurisdiction of additional governmental agencies. See “THE SYSTEM—Regulation.”

Description and Location

The District is located in Harris County approximately 35 miles northwest of the City of Houston central business district. The District is located south of Waller-Tomball Road, immediately east of Mueschke Road and immediately north of Texas State Highway 99 (Grand Parkway). The District lies entirely within the extraterritorial jurisdiction of the City of Houston and is located within the Tomball Independent School District. See “AERIAL LOCATION MAP.”

Land Use

The District currently includes approximately 159 developed acres of single-family residential development (614 lots), approximately 165 developable acres that have not been provided with water distribution or wastewater collection, and approximately 48 undevelopable acres (utility sites, easements and drainage facilities). The table below represents a detailed breakdown of the current acreage and development in the District.

<u>Single-Family Residential</u>	Approximate <u>Acres</u>	<u>Lots/Units</u>
Amira:		
Section One	20	94
Section Two	11	43
Section Three	25	122
Section Four	18	93
Section Five	17	63
Section Six	18	83
Section Eight	2	10
Section Nine	48	106
Subtotal	159	614
Undevelopable	48	---
Future Development	165	---
Totals	372	614

Status of Development

Single Family Residential: The District is being developed as Amira, a single-family residential community. Construction of water distribution, wastewater collection, storm drainage and paving facilities have been completed to serve 614 single-family residential lots on approximately 159 acres. As of September 24, 2020, 223 homes were completed (219 occupied and 4 unoccupied); 123 new homes were under construction or in a builder's name; and 268 developed lots were available for home construction in the District. Home values within the District range from approximately \$230,000 to over \$450,000.

Community Facilities: The Resort at Amira, a recreation and activity center, has been completed on approximately four acres within the District and includes a 7,000-square-foot clubhouse with a fitness room, children's reading nook, kitchen, swimming pool and a yoga studio. Community facilities within the District also include an event lawn, a playground and a dog park. Ponds, lakes and channels throughout the District have landscaped walking paths and sitting areas.

The estimated population in the District, based upon 3.5 persons per occupied residence is 767.

Future Development

The District is being developed as a single-family residential development. Approximately 165 developable acres of land currently within the District are not yet fully served with water distribution and supply, wastewater collection and treatment, storm drainage facilities or roads. See "RISK FACTORS—Undeveloped Acreage and Vacant Lots" and "—Future Debt." The Engineer has stated that under regulatory criteria and current development plans (and excluding any costs of converting to surface water), the remaining authorized but unissued bonds in the aggregate principal amount of \$251,900,000 should be sufficient to finance the construction of facilities to complete the District's water, sewer, drainage, roads and recreation system for full development of the District.

THE DEVELOPERS

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 where utilities are to be financed by a district through a specified bond issue, 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.

Prospective Bond purchasers should note that the prior real estate experience of the Developers should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. See "RISK FACTORS."

The Developers

GP 344 Ltd., a Texas limited partnership ("GP 344") and Beazer Homes Texas, LP, a Texas limited partnership ("Beazer Homes") have entered into a joint development agreement (the "Development Agreement") for the purpose of acquiring approximately 372 acres within the District and developing such land. Pursuant to the Development Agreement, GP 344 and Beazer Homes each retain a fifty percent (50%) undivided interest in the approximate 372 acres not sold to builders or ultimate users. GP 344 and Beazer Homes are herein referred to as the "Developers."

GP 344 and Beazer Homes have engaged Johnson Development Services, an affiliate company of Johnson Development Corp., to manage the development in the District by the Developers.

Neither the Developers nor any affiliated companies have any legal commitment to the District or to owners of the Bonds to continue development of the land within the District and the Developers may sell or otherwise dispose of their property within the District, or any other assets, at any time. Further, the financial condition of the Developers is subject to change at any time. Because of the foregoing, financial information concerning the Developers will neither be updated nor provided following issuance of the Bonds, except as described herein under "CONTINUING DISCLOSURE INFORMATION." See "RISK FACTORS—Dependence on Principal Taxpayers."

GP 344: PSWA, Inc., a Texas corporation, is the sole General Partner of GP 344 and the limited partner of GP 344 is Perry Homes, LLC, a Texas limited liability company.

All funds required for development activities are provided by GP 344 or from lot sales. There is no debt instrument associated with development in the District by GP 344. Perry Homes, LLC is not legally obligated to provide funds for the development of the District nor is it legally obligated to provide funds to pay taxes on property in the District owned by GP 344, or to pay any other obligations related to the District.

Certain financial information concerning GP 344 is attached hereto as “APPENDIX B—Unaudited Financial Information Concerning GP 344 Ltd.”

Beazer Homes: The General Partner of Beazer Homes is Beazer Homes Texas Holdings, Inc., a Delaware corporation, the stock of which is owned by Beazer USA, Inc. (“Beazer USA”), which is traded on the New York Stock Exchange under the ticker “BZH.”

All funds required for Beazer Homes development activities are provided by Beazer Holdings or from lot sales. There is no debt instrument associated with development in the District by Beazer Homes. Beazer USA is not legally obligated to provide funds for the development of the District nor is it legally obligated to provide funds to pay taxes on property in the District owned by Beazer Homes, or to pay any other obligations related to the District.

Beazer USA files annual, quarterly and current reports, proxy statements and other information with the SEC. Beazer USA 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 Beazer USA has 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-SEC-0330 for further information regarding the operation of the Public Reference Room. In addition, Beazer USA makes available on its web sites <http://www.beazer.com> its 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 Beazer USA’s web site, available by hyperlink from Beazer USA’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 Beazer USA concerning its publicly available filings or undertaken any review thereof and assumes no responsibility for the information contained therein.

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 four-year terms and elections are held in May in even numbered years only. None of the Board members resides within the District; however, all Board members own land within the District subject to a note and deed of trust in favor of the Developers. Directors have staggered four-year terms. 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>
Steve Bonjonia	President	May 2024
Glenda Cross-Paris	Vice President	May 2022
Christi Miller	Secretary	May 2024
Biran Dierschla	Assistant Vice President	May 2022
Mark Nelson	Assistant Secretary	May 2022

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/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District’s bonds. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

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

Auditor: The District’s financial statements for the year ended December 31, 2019, were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See “APPENDIX A” for a copy of the District’s audited financial statements for the year ended December 31, 2019.

Engineer: The District’s consulting engineer is Costello, Inc.

Tax Appraisal: The Harris County 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. Utility Tax Service, LLC (the “Tax Assessor/Collector”) has been employed by the District to serve in this capacity.

Bookkeeper: The District has contracted with Myrtle Cruz, Inc. (the “Bookkeeper”) for bookkeeping services.

Utility System Operator: The operator of the District’s water and wastewater system is Municipal District Services, LLC.

THE ROAD SYSTEM

The road system (the “Roads”), including the projects to be funded with the proceeds of the bonds, serves the residents of the District by providing access to major thoroughfares and collector roads within Amira and the surrounding area. The internal subdivision streets and collector roads convey the residents of the District to Mueschke Road. All roads are maintained or will be maintained by Harris County.

THE WATER, WASTEWATER AND DRAINAGE SYSTEM

Regulation

Construction and operation of the District’s water, wastewater and storm drainage system (the “System”) as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Withdrawal of ground water and the issuance of water well permits is subject to the regulatory authority of the Harris-Galveston Subsidence District where applicable (see “Water Supply” and “Subsidence and Conversion to Surface Water Supply” below). Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District. Harris County, the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the System.

Water Supply

Water supply for the District is provided pursuant to a utility agreement (the “Utility Agreement”) by and between the District and Harris County Municipal Utility District No. 542 (“MUD 542”). The water supply plant is jointly owned by the District and MUD 542 with MUD 542 operating the water supply facilities. The water supply plant includes a 1,000 gallon per minute (“gpm”) water well, a 15,000 gallon pressure tank, 188,000 gallons of ground storage, booster pump capacity of 1,220 gpm and an emergency water supply interconnect between MUD 542 and HMW Special Utility District. Pursuant to the Utility Agreement, the District is entitled to 44.75% of the capacity in the water supply plant or 422 equivalent single-family connections. As of September 24, 2020, the District was serving 346 active connections (including 223 completed homes and 123 homes under construction or in a builder’s name).

Subsidence and Conversion to Surface Water Supply

The District is within the boundaries of the Harris Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District’s jurisdiction, including the area within the District. 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. The District is located within the boundaries of the Authority. The Authority has entered into a Water Supply Contract with the City of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District’s groundwater well(s) are included within the Authority’s GRP. The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority’s GRP.

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

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

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to continue passing such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, further 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

Wastewater treatment for the District is provided pursuant to the Utility Agreement. The District and MUD 542 jointly own the wastewater treatment plant with MUD 542 operating the plant. The wastewater treatment plant has capacity to serve 1,000 equivalent single family connections. Under the Utility Agreement, the District is entitled to 500 single family equivalent connections. As of September 24, 2020, the District was serving 346 active connections (including 223 completed homes and 123 homes under construction or in a builder’s name).

Water Distribution, Wastewater Collection and Storm Drainage Facilities

Water distribution, wastewater collection, storm drainage and paving facilities have been constructed to serve 614 single-family residential lots within the District. See “THE DISTRICT— Land Use—Status of Development.”

100-Year Flood Plain

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes and other improvements 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 no assurance that homes and other improvements built in such area will not be flooded. The District’s drainage system has been designed and constructed to all current standards.

According to the Engineer, approximately 31 undeveloped acres within the District are located within the 100-year flood plain. According to the Developers, prior to development of this acreage, such land will be removed from the 100-year flood plain by appropriate governmental organizations.

Atlas 14

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-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 “RISK FACTORS—Atlas 14.”

Water and Wastewater Operations

The following statement sets forth in condensed form the General Operating Fund as shown in the District's audited financial statements for the period of inception to December 31, 2019, and an unaudited summary provided by the Bookkeeper for the period of January 1, 2020, to August 31, 2020. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to such statements, including "APPENDIX A," for further and complete information.

	1/1/2020 to <u>8/31/2020</u> Unaudited(a)	Fiscal Year Ended <u>12/31/2019</u>
Revenues:		
Property Taxes	\$ 60,000	\$ -
Water and Sewer Service	259,338	34,559
Penalty and Interest	-	606
Regional Water Authority Fee	-	14,804
Tap Connection & Inspection	292,225	242,170
Miscellaneous	1	2,280
Total Revenue	\$ 611,563	\$ 294,419
Expenditures:		
Professional Fees	\$ 132,933	\$ 131,403
Purchased Water Service	136,885	123,757
Purchased Wastewater Service	35,899	37,484
Purchased Drainage Service	3,635	46,413
Repairs and Maintenance	185,249	88,822
Capital Outlay	-	49,555
Contracted Services	35,290	18,785
Other Expenses	171,892	143,934
Total Expenditures	\$ 701,782	\$ 640,153
NET REVENUES	\$ (90,218)	\$ (345,734)
Other Financing Sources(b)	\$ 145,000	\$ 325,000
General Operating Fund Balance (Beginning of Year)	\$ (20,734)	\$ -
General Operating Fund Balance (End of Year)	\$ 34,048	\$ (20,734)

(a) Unaudited. Provided by the Bookkeeper.

(b) Developer advances.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2020 Taxable Assessed Valuation.....	\$49,397,952	(a)
Estimated Taxable Assessed Valuation as of August 15, 2020.....	\$98,217,676	(b)
Gross Direct Debt Outstanding	\$11,100,000	(c)
Estimated Overlapping Debt	2,891,761	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$13,991,761	
Ratios of Gross Direct Debt to:		
2020 Taxable Assessed Valuation	22.47%	
Estimated Taxable Assessed Valuation as of August 15, 2020.....	11.30%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2020 Taxable Assessed Valuation.....	28.32%	
Estimated Taxable Assessed Valuation as of August 15, 2020.....	14.25%	
Debt Service Funds Available:		
Twenty-Four (24) Months of Capitalized Interest from the		
Outstanding Bonds (Water Sewer & Drainage).....	\$373,140	(e)
Twenty-Four (24) Months of Capitalized Interest from the Bonds (Road).....	220,088	(f)
Total Debt Service Funds Available	\$593,228	
Operating Funds Available as of September 24, 2020	\$27,246	(g)
(a) The Harris County Appraisal District (the "Appraisal District") has certified \$43,792,353 of taxable value and an additional \$5,605,599 of taxable value remains uncertified. According to the Appraisal District, the uncertified value represents the landowner's opinion of the taxable value; however, such value could be subject to downward revision. No tax will be levied on the uncertified value until it is certified. The 2020 Taxable Valuation shown throughout this OFFICIAL STATEMENT is the certified value plus the uncertified value. See "TAXING PROCEDURES."		
(b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on August 15, 2020. Increases in value that occur between January 1, 2020, and December 31, 2020, will be assessed for purposes of taxation on January 1, 2021. No tax will be levied on such amount until it is certified. See "TAXING PROCEDURES."		
(c) The Outstanding Bonds and the Bonds. See "—Outstanding Bonds" herein.		
(d) See "—Estimated Overlapping Debt" and "—Overlapping Taxes" herein.		
(e) Represents twenty-four (24) months of capitalized interest from proceeds of the Outstanding Bonds.		
(f) The District will capitalize twenty-four (24) months of interest on the Bonds that will be deposited in the Road Debt Service Fund. Funds in the Water, Sewer and Drainage Debt Service Fund are available to pay debt service on the bonds issued for water, sewer and drainage facilities and are not available to pay debt service on bonds issued for road facilities, including the Bonds. Funds in the Road Debt Service Fund are available to pay debt service on bonds issued for road facilities, including the Bonds and are not available to pay debt service on the District's bonds issued for water, sewer and drainage facilities, including the Outstanding Bonds. See "THE BONDS—Funds."		
(g) See "RISK FACTORS—Operating Funds."		

Investments of the District

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

Outstanding Bonds

The District has issued one series of unlimited tax bonds in the principal amount of \$7,100,000, all of which remains outstanding (the "Outstanding Bonds") as of the date hereof.

Debt Service Requirements

The following sets forth the debt service requirements on the Outstanding Bonds (see “Outstanding Bonds” in this section) and the debt service on the Bonds. This schedule does not reflect the fact that the District capitalized twenty-four (24) months of interest from proceeds of the Outstanding Bonds in September 2020 and that an amount equal to twenty-four (24) months of interest will be capitalized from proceeds of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Year	Outstanding Bonds Debt Service Requirements	Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2021	\$ 356,570	\$ -	\$ 91,703.13	\$ 91,703.13	\$ 448,273.13
2022	359,020	110,000	110,043.75	220,043.75	579,063.75
2023	366,220	115,000	107,843.75	222,843.75	589,063.75
2024	368,075	115,000	105,543.75	220,543.75	588,618.75
2025	374,655	120,000	103,243.75	223,243.75	597,898.75
2026	375,855	125,000	100,843.75	225,843.75	601,698.75
2027	381,755	130,000	98,218.75	228,218.75	609,973.75
2028	387,455	135,000	95,358.75	230,358.75	617,813.75
2029	392,730	140,000	92,253.75	232,253.75	624,983.75
2030	397,560	145,000	88,893.75	233,893.75	631,453.75
2031	401,925	150,000	85,268.75	235,268.75	637,193.75
2032	400,805	155,000	81,368.75	236,368.75	637,173.75
2033	409,305	160,000	77,183.75	237,183.75	646,488.75
2034	412,155	165,000	72,703.75	237,703.75	649,858.75
2035	414,460	170,000	67,918.75	237,918.75	652,378.75
2036	416,200	175,000	62,818.75	237,818.75	654,018.75
2037	422,660	185,000	57,568.75	242,568.75	665,228.75
2038	423,060	190,000	52,018.75	242,018.75	665,078.75
2039	428,160	195,000	46,318.75	241,318.75	669,478.75
2040	432,810	200,000	40,468.75	240,468.75	673,278.75
2041	437,010	210,000	34,468.75	244,468.75	681,478.75
2042	440,760	215,000	28,168.75	243,168.75	683,928.75
2043	444,060	225,000	21,718.75	246,718.75	690,778.75
2044	446,505	230,000	14,687.50	244,687.50	691,192.50
2045	448,485	240,000	7,500.00	247,500.00	695,985.00
Total	\$ 10,138,255	\$ 4,000,000	\$ 1,744,128.13	\$ 5,744,128.13	\$ 15,882,383.13
Average Annual Debt Service Requirements (2021-2045)					\$635,295
Maximum Annual Debt Service Requirement (2045)					\$695,985

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.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Harris County	\$1,867,957,128	08/31/20	0.01%	\$186,796
Harris County Flood Control District.....	83,075,000	08/31/20	0.01%	8,308
Harris County Hospital District.....	86,050,000	08/31/20	0.01%	8,605
Port of Houston Authority	514,174,397	08/31/20	0.01%	51,417
Tomball Independent School District.....	587,705,000	08/31/20	0.43%	2,527,132
Lone Star College System	544,355,000	08/31/20	0.02%	108,871
Harris County Department of Education.....	6,320,000	08/31/20	0.01%	632
Total Estimated Overlapping Debt.....				\$ 2,891,761
The District's Total Direct Debt (a)				11,100,000
Total Direct and Estimated Overlapping Debt				\$13,991,761

Direct and Estimated Overlapping Debt as a Percentage of:

2020 Taxable Assessed Valuation of \$49,397,952.....	28.32%
Estimated Taxable Assessed Valuation as of August 15, 2020 of \$98,217,676	14.25%

(a) The 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 all of the taxes levied for either the 2019 or 2020 tax year by all taxing jurisdictions overlapping the District and the 2020 tax rate of the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	<u>Tax Rate Per \$100 of Taxable Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority) (a).....	\$0.63517
Tomball Independent School District (b)	1.29000
Harris County Emergency Services Districts (a).....	0.20000
Lone Star College System (b)	0.10780
Total Overlapping Tax Rate	\$2.23297
The District (b) (c).....	1.35000
Total Tax Rate.....	\$3.58297

(a) 2019 tax rate.

(b) 2020 tax rate.

(c) See "TAX DATA—Historical Tax Rate Distribution.

TAX DATA

Debt Service Tax

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

Maintenance 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 May 4, 2019, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 of taxable assessed valuation. A 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” and “Historical Tax Rate Distribution” herein. At an election held within the District on May 4, 2019, voters authorized the Board to levy a maintenance tax for operation and maintenance costs of road facilities at a rate not to exceed \$0.25 per \$100 of taxable assessed valuation.

Exemptions

For tax year 2020, the District has not granted any exemptions from taxation.

Historical Tax Rate Distribution

	<u>2020</u>	<u>2019</u>
Debt Service Tax	\$ 0.35	\$ -
Maintenance Tax	<u>1.00</u>	<u>1.35</u>
Total District Tax Rate	\$ 1.35	\$ 1.35

Additional Penalties

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

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Tax year 2019 was the initial year of taxation for the District. Such table has been prepared for inclusion herein, based upon information obtained from the District’s Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” herein.

	Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy	Total Collections As of 8/31/2020 (b)	
				Amount	Percent
2019	\$ 11,194,934	\$ 1.35	\$ 151,132	\$ 151,132	100.00%
2020	49,397,952	1.35	666,872	(c)	(c)

- (a) As certified by the Appraisal District. See “Tax Roll Information.”
 (b) Unaudited.
 (c) Tax collections for the 2020 tax year are due by January 31, 2021.

Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate. See "TAXING PROCEDURES—Valuation of Property for Taxation." The following represents the composition of property comprising the 2020 Taxable Assessed Valuation and 2019 Taxable Assessed Valuation, which is the initial year of valuation for the District. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. Breakdowns of the uncertified portion (\$5,605,599) of the 2020 Taxable Assessed Valuation of \$49,397,952 and the Estimated Taxable Assessed Valuation as of August 15, 2020, of \$98,217,676 are not available.

	2020 Taxable Assessed Valuation	2019 Taxable Assessed Valuation
Land	\$ 17,674,526	\$ 9,112,415
Improvements	27,342,841	2,089,314
Personal Property	<u>202,615</u>	<u>-</u>
Gross Assessed Valuation	\$ 45,219,982	\$ 11,201,729
Exemptions	(1,427,629)	(6,795)
Uncertified Value	<u>5,605,599</u>	<u>-</u>
Total Taxable Assessed Valuation	\$ 49,397,952	\$ 11,194,934

Principal Taxpayers

The following table represents the principal taxpayers, the taxable assessed value of such property, and such property's taxable assessed valuation as a percentage of the certified portion (\$43,792,353) of the 2020 Taxable Assessed Valuation of \$49,397,952. This represents ownership as of January 1, 2020. Principal taxpayer lists related to the uncertified portion (\$5,605,599) of the 2020 Taxable Assessed Valuation of \$49,397,952 and the Estimated Taxable Assessed Valuation as of August 15, 2020, of \$98,217,676 are not available.

Taxpayer	2020 Certified Taxable Assessed Valuation	% of 2020 Certified Taxable Assessed Valuation
Beazer Homes Texas LP & GP 344 LTD (a)	\$ 14,344,825	32.76%
Beazer Homes Texas LP (a)	3,043,814	6.95%
GP 344 LTD (a)	3,037,759	6.94%
Perry Homes LLC (a)	1,054,085	2.41%
Individual	387,224	0.88%
Individual	383,012	0.87%
Individual	373,294	0.85%
Individual	372,425	0.85%
Individual	372,228	0.85%
Individual	<u>372,081</u>	<u>0.85%</u>
Total	\$ 23,740,747	54.21%

(a) See "THE DEVELOPERS."

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District's tax base occurred beyond the 2020 Taxable Assessed Valuation of \$49,397,952 (\$43,792,353 of certified value plus \$5,605,599 of uncertified value) or the Estimated Taxable Assessed Valuation as of August 15, 2020, of \$98,217,676. The calculations contained in the following table merely represent the tax rates required to pay principal of 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 percent (90%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "RISK FACTORS—Possible Impact on District Tax Rates" and "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

Average Annual Debt Service Requirement (2021-2045)	\$635,295
\$1.43 Tax Rate on the 2020 Taxable Assessed Valuation	\$635,752
\$0.72 Tax Rate on Estimated Taxable Assessed Valuation as of August 15, 2020	\$636,451
Maximum Annual Debt Service Requirement (2045).....	\$695,985
\$1.57 Tax Rate on the 2020 Taxable Assessed Valuation	\$697,993
\$0.79 Tax Rate on Estimated Taxable Assessed Valuation as of August 15, 2020	\$698,328

No representation or suggestion is made that the uncertified portion of the 2020 Taxable Assessed Valuation will not be adjusted downward prior to certification or that the Estimated Taxable Assessed Valuation as of August 15, 2020, provided by the Appraisal District for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amount 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, 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 Resolution to levy such a tax from year-to-year as described more fully herein under "THE BONDS—Source of Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See "TAX DATA—Debt Service Tax" and "—Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous 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 \$3,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption,

and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead 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%) 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 before July 1. See "TAX DATA."

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

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. 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.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all 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.

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. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

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 sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for

the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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

Voter—Approval of Tax Rate

During the 86th Regular Legislative Session, Senate Bill 2 ("SB2") was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a roll back election held within any of the districts described below. New SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

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

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

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

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

District's Rights in the Event of Tax Delinquencies

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

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

The Effect of FIRREA on Tax Collections of the District

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

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

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

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied by the District, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, to a like effect and to the effect that, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under "THE BONDS," "THE DISTRICT—General," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District or the Developers for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

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

No Material Adverse Change

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

No-Litigation Certificate

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

TAX MATTERS

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

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

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

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

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 Developers, 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 except as described below under "Certification of OFFICIAL STATEMENT." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

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

Consultants

In approving this OFFICIAL STATEMENT, the District has relied upon the following consultants.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided Utility Tax Service, LLC and is included herein in reliance upon the authority of such as an expert in assessing property values and collecting taxes.

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, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The District's financial statements for the year ended December 31, 2019, were audited by McCall Gibson Swedlund Barfoot PLLC See "APPENDIX A" for a copy of the District's December 31, 2019, financial statements.

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—Water and Wastewater Operations" has been provided by Myrtle Cruz, Inc. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

If subsequent to the date of the OFFICIAL STATEMENT, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the OFFICIAL STATEMENT to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the OFFICIAL STATEMENT satisfactory to the Underwriter; provided, however, that the obligation of the District to the Underwriter to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

Certification of Official Statement

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the Board has relied in part upon its examination of records of the District, and upon 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 Resolution, the District has 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 to the MSRB through EMMA. In addition, the District and the Developers have agreed to provide information with respect to the Developers, any person or entity to whom the Developers voluntarily assign (except as collateral) the right to receive a payment out of the proceeds from the sale of the bonds of the District, and each other person or entity, if any, to whom the District voluntarily makes or agrees or has agreed to make a payment out of such proceeds. The District and the Developers will be obligated to provide information concerning the Developers and any such other person or entity only if and so long as (1) such person owns more than 20% of the taxable property within the District by value, as reflected by the most recently certified tax rolls (and without effect to special valuation provisions), (2) such person has made tax or other payments to the District which were used or available to pay more than 20% of the District’s debt service requirements in the applicable fiscal year, or (3) at the end of such fiscal year such person is obligated to the District to provide or pay for District facilities or debt in an amount which exceeds 20% of the amount of the District’s bonds then outstanding.

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)”, except for Estimated Overlapping Debt, “TAX DATA,” and in APPENDIX A—Financial Statement of the District and with respect to GP 344, the information included in “APPENDIX B—Unaudited Financial Information Concerning GP 344 LTD,” and with respect to Beazer Homes, the information included in TAX DATA—Principal Taxpayers.” The District will update and provide this information within six months after the end of each fiscal year ending in or after 2020. 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 period 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 December 31. Accordingly, it must provide updated information by June 30 each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain 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 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; (13) consummation of a merger, consolidation, or acquisition involving

the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (15) incurrence of a financial obligation of the District or other obligated person, 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, 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 a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms “obligated person” and “financial obligation” shall have the meanings ascribed to them under (SEC Rule 15c2-12 (the “Rule”). The term “material” when used in this paragraph shall have the meanings ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from the MSRB

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

Limitations and Amendments

The District has agreed to update information and to provide notices of 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; nor has the District 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 Developers have agreed to provide to the District the information that the District has agreed to provide with respect to the Developers. The Developers have also agreed with the District that they will not assign any of their rights to receive payment from the District out of proceeds of the Bonds (except as collateral), unless the assignee assumes the Developers' agreement to provide such information, but the Developers may sell their property within the District without any such assumption. The District's ability to provide information about the Developers or others, as well as the accuracy and completeness of such information, is completely dependent on such persons' compliance with their contractual agreements with the District.

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

Compliance With Prior Undertakings

Since the District's first issuance of bonds in 2020, 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 APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this OFFICIAL STATEMENT involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

/s/ Steve Bonjonia
President, Board of Directors

ATTEST:

/s/ Christi Miller
Secretary, Board of Directors

AERIAL LOCATION MAP
(As of July 2020)

HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 558



MUSCHKE RD.

GRAND PKWY.

PHOTOGRAPHS OF THE DISTRICT
(As of July 2020)











APPENDIX A

Financial Statement of the District for the period ended December 31, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

DECEMBER 31, 2019

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal Utility District No. 558
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of Harris County Municipal Utility District No. 558 (the "District"), as of and for the inception period ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

March 26, 2020

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019

Management's discussion and analysis of Harris County Municipal Utility District No. 558's (the "District") financial performance provides an overview of the District's financial activities for the inception period year ended December 31, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund type. The General Fund accounts for customer service revenues, property tax revenues, operating costs and general expenditures.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets by \$369,968 as of December 31, 2019.

With the first audit, the District is not presenting comparable prior-year columns in the various comparisons and analysis. In future years, when prior-year information is available, a comparable analysis of government-wide changes in net position will be presented. The following table provides a summary of the Statement of Net Position as of December 31, 2019:

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of the Statement of Net Position
	<u>2019</u>
Current Assets	\$ 184,931
Capital Assets (Net of Depreciation)	<u>10,010,425</u>
Total Assets	<u>\$ 10,195,356</u>
Due to Developer	\$ 10,359,659
Other Liabilities	<u>116,814</u>
Total Liabilities	<u>\$ 10,476,473</u>
Deferred Inflows of Resources	<u>\$ 88,851</u>
Net Position:	
Net Investment in Capital Assets	\$ (24,234)
Unrestricted	<u>(345,734)</u>
Total Net Position	<u><u>\$ (369,968)</u></u>

The following table provides a summary of the District's operations for the inception period ended December 31, 2019, which is the initial audit period for the District.

	Summary of the Statement of Activities
	<u>2019</u>
Revenues:	
Charges for Services	\$ 292,139
Other Revenues	<u>2,280</u>
Total Revenues	<u>\$ 294,419</u>
Expenses for Services	<u>664,387</u>
Change in Net Position	\$ (369,968)
Net Position, Inception	<u> </u>
Net Position, End of Year	<u><u>\$ (369,968)</u></u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The General Fund had a deficit fund balance of \$20,734 as of the end of the current period (see Note 10).

GENERAL FUND BUDGETARY HIGHLIGHTS

The District adopts an unappropriated budget each year. The budget was amended to increase all projected revenue categories. Actual revenues were \$23,719 more than budgeted revenues. Actual expenditures were \$57,453 more than budgeted expenditures.

CAPITAL ASSETS

Capital assets as of December 31, 2019, total \$10,010,425 (net of accumulated depreciation) and include land, water, wastewater and drainage systems as well as water and wastewater capacity fees paid to Harris County Municipal Utility District No. 542.

<u>Capital Assets At Year-End, Net of Accumulated Depreciation</u>	
	<u>2019</u>
Capital Assets, Net of Accumulated Depreciation:	
Water System	\$ 380,049
Wastewater System	805,726
Drainage System	5,287,865
Capacity in Joint Facilities	<u>3,431,585</u>
Total Net Capital Assets	<u>\$ 10,010,425</u>

LONG-TERM DEBT

As of December 31, 2019, the District has not issued bonds but did record an amount due to Developer of \$10,359,659 (see Note 8).

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 558, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, TX 77027.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2019

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 62,684	\$	\$ 62,684
Property Taxes	64,432		64,432
Service Accounts	24,161		24,161
Due from Developer	12,500		12,500
Prepaid Costs	344		344
Advance for Water Plant Operations	9,533		9,533
Advance for Wastewater Treatment Plant Operations	11,277		11,277
Land		105,200	105,200
Capital Assets (Net of Accumulated Depreciation)		9,905,225	9,905,225
TOTAL ASSETS	<u>\$ 184,931</u>	<u>\$ 10,010,425</u>	<u>\$ 10,195,356</u>
LIABILITIES			
Accounts Payable	\$ 79,864	\$	\$ 79,864
Due to Developer		10,359,659	10,359,659
Security Deposits	36,950		36,950
TOTAL LIABILITIES	<u>\$ 116,814</u>	<u>\$ 10,359,659</u>	<u>\$ 10,476,473</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	\$ 88,851	\$ -0-	\$ 88,851
FUND BALANCE (DEFICIT)			
Nonspendable:			
Prepaid Costs	\$ 344	(344)	
For Water Plant Operations	9,533	(9,533)	
For Wastewater Treatment Plant Operations,	11,277	(11,277)	
Unassigned	(41,888)	41,888	
TOTAL FUND BALANCE (DEFICIT)	<u>\$ (20,734)</u>	<u>\$ 20,734</u>	<u>\$ -0-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 184,931</u>		
NET POSITION			
Net Investment in Capital Assets		\$ (24,234)	\$ (24,234)
Unrestricted		(345,734)	(345,734)
TOTAL NET POSITION		<u>\$ (369,968)</u>	<u>\$ (369,968)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019

Total Fund Balance - Governmental Fund	\$	(20,734)
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets are not current financial resources and, therefore, are not reported as assets in the governmental funds.		10,010,425
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

<div style="margin-left: 40px;">Due to Developer</div>		<div style="margin-left: 40px;"><u>(10,359,659)</u></div>
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Total Net Position - Governmental Activities	\$	<u>(369,968)</u>
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The accompanying notes to the financial
statements are an integral part of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE INCEPTION ENDED DECEMBER 31, 2019

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Water Service	\$ 14,321	\$	\$ 14,321
Wastewater Service	20,238		20,238
Regional Water Authority Fees	14,804		14,804
Penalty and Interest	606		606
Tap Connection and Inspection Fees	242,170		242,170
Miscellaneous Revenues	2,280		2,280
TOTAL REVENUES	<u>\$ 294,419</u>	<u>\$ -0-</u>	<u>\$ 294,419</u>
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 131,403	\$	\$ 131,403
Contracted Services	18,785		18,785
Purchased Water Service	123,757		123,757
Purchased Wastewater Service	37,484		37,484
Purchased Drainage Service	46,413		46,413
Repairs and Maintenance	88,822		88,822
Depreciation		73,789	73,789
Other	143,934		143,934
Capital Outlay	49,555	(49,555)	
TOTAL EXPENDITURES/EXPENSES	<u>\$ 640,153</u>	<u>\$ 24,234</u>	<u>\$ 664,387</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ (345,734)</u>	<u>\$ (24,234)</u>	<u>\$ (369,968)</u>
OTHER FINANCING SOURCES (USES)			
Developer Advances	\$ 325,000	\$ (325,000)	\$ -0-
NET CHANGE IN FUND BALANCE	\$ (20,734)	\$ 20,734	\$
CHANGE IN NET POSITION		(369,968)	(369,968)
FUND BALANCE/NET POSITION - INCEPTION, FEBRUARY 11, 2019	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE (DEFICIT)/NET POSITION - DECEMBER 31, 2019	<u>\$ (20,734)</u>	<u>\$ (349,234)</u>	<u>\$ (369,968)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019

Net Change in Fund Balance - Governmental Fund	\$	(20,734)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded.		(73,789)
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Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases or the related developer liability is reduced.		49,555
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Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances are recorded as a liability.		(325,000)
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Change in Net Position - Governmental Activities	\$	<u>(369,968)</u>
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The accompanying notes to the financial
statements are an integral part of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 558, of Harris County, Texas, was created on February 11, 2019, by an Order of the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, security and to construct roads and parks and recreational facilities for the residents of the District. The Board of Directors held its first meeting on February 11, 2019.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental Fund

The District has one governmental fund and considers it to be a major fund.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

General Fund - To account for customer service revenues, property tax revenues, operating costs and general expenditures.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectible within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due. The 2019 tax levy has been fully deferred to meet operating expenditures of the 2020 fiscal year.

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

Capital Assets

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

The District chose to early implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Interest costs will not be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements.

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<u>Years</u>
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
Joint Facilities	40

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and amended budget amounts, if amended, compared to the actual amounts of revenues and expenditures for the current period.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that the directors are considered "employees" for federal payroll tax purposes only.

Measurement Focus

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

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

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

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The District does not have any restricted fund balances.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes. Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$62,684 and the bank balance was \$127,512. The District was not exposed to custodial credit risk at year-end.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

The carrying values of the deposits are included in the Governmental Fund Balance Sheet and the Statement of Net Position at December 31, 2019, as listed below:

	<u>Cash</u>
GENERAL FUND	<u>\$ 62,684</u>

Investments

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

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

As of December 31, 2019, the District had no investments.

NOTE 4. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and construction of assets, errors and omissions and natural disasters for which the District carries, commercial insurance. Settlements have not exceeded coverage in the past year.

NOTE 5. BONDS VOTED

As of December 31, 2019, the District had authorized but unissued bonds in the amount of \$205,000,000 for utility facilities and refunding purposes, \$23,000,000 for recreational facilities and refunding purposes and \$35,000,000 for road facilities and refunding purposes.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 6. CAPITAL ASSETS

Capital asset activity for the inception period ended December 31, 2019 is as follows:

	Inception February 11, 2019	Increases	Decreases	December 31, 2019
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ -0-	\$ 105,200	\$ -0-	\$ 105,200
Capital Assets Subject to Depreciation				
Water System	\$	\$ 381,831	\$	\$ 381,831
Wastewater System		809,429		809,429
Drainage Facilities		5,313,235		5,313,235
Capacity in Joint Facilities		3,474,519		3,474,519
Total Capital Assets at Historical Cost Subject to Depreciation	\$ -0-	\$ 9,979,014	\$ -0-	\$ 9,979,014
Less Accumulated Depreciation				
Water System	\$	\$ 1,782	\$	\$ 1,782
Wastewater System		3,703		3,703
Drainage Facilities		25,370		25,370
Capacity in Joint Facilities		42,934		42,934
Total Accumulated Depreciation	\$ -0-	\$ 73,789	\$ -0-	\$ 73,789
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ -0-	\$ 9,905,225	\$ -0-	\$ 9,905,225
Total Capital Assets, Net of Accumulated Depreciation	\$ -0-	\$ 10,010,425	\$ -0-	\$ 10,010,425

NOTE 7. MAINTENANCE TAX

On May 4, 2019, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. During the inception period ended December 31, 2019, the District levied an ad valorem maintenance tax rate of \$1.35 per \$100 assessed valuation, which resulted in an adjusted tax levy of \$88,851 on the adjusted taxable valuation of \$6,581,559 for the 2019 tax year. The 2019 tax levy has been fully deferred and is budgeted for use in fiscal year 2020.

On May 4, 2019, the voters of the District approved the levy and collection of a road maintenance tax not to exceed \$0.25 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of maintaining the District's roads. No road maintenance tax has been levied as of yet.

All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 8. UNREIMBURSED COSTS

The District has entered into certain financing and reimbursement agreements with Developers within the District which provide for the Developers to make payments on behalf of the District for various projects and operating advances. The District has an obligation to reimburse the Developers for these costs from future bond issues to the extent approved by the Commission. The District has recorded a liability to the Developers of \$10,359,659 for completed projects and operating advances as of December 31, 2019. The actual amounts owed, including developer interest, will be calculated at the time debt is issued to reimburse the Developers.

NOTE 9. JOINT FACILITIES

Effective August 1, 2019, Beazer Homes Texas, L.P. and GP 344, LTD. (collectively, the “Developers”) and Harris County Municipal Utility District No. 542 (“MUD 542”) entered into a Utility Agreement (the “Agreement”) setting forth the terms pursuant to which MUD 542 would design, construct, and operate certain facilities to serve both MUD 542 and the District. The Agreement provides for the contemplated construction of a water plant and wastewater treatment plant, each to be completed in four phases (collectively, the “Joint Facilities”). Construction costs are allocated based on each district’s proportionate share of capacity for each phase of the Joint Facilities. Upon completion of each phase of Joint Facility construction, MUD 542 shall own, operate, and maintain the Joint Facilities; provided, however, the District shall own an undivided, equitable interest in the applicable Joint Facility based on the District’s payment of its pro-rata share for design and construction thereof. The Agreement further: (i) provides for the financing of future construction or repair of the Joint Facilities and the associated funding responsibilities; and (ii) requires both MUD 542 and the District to pay its pro-rata share of the ongoing operation and maintenance costs of the Joint Facilities. To date, MUD 542 has completed the construction of Phase 1 of both the water plant and the wastewater treatment plant and is providing capacity to the District consistent with the terms of the Agreement. The Agreement is for a 50-year term, unless otherwise terminated by mutual agreement of MUD 542 and the District prior thereto.

On December 19, 2019, the Developers and the District executed an Assignment of the Agreement in which the District assumed the Developer’s obligations and responsibilities under the Agreement.

The Agreement requires that each district keep on deposit its proportionate share of an operation and maintenance reserve. The District has advanced \$9,533 for water plant operations and \$11,277 for wastewater plant operations in accordance with the Agreement. The District’s share of joint facilities costs during the current period was \$123,757 for purchased water service and \$37,484 for purchased wastewater service.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 10. DEFICIT FUND BALANCE

The District has recorded a deficit fund balance of \$20,734 in the General Fund. The District anticipates the deficit will be alleviated with developer advances and tax collections in the next fiscal year.

NOTE 11. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the North Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House bill 2965 (the “Act”), as passed by the 75th Texas Legislature, in 1999. The Act empowers the Authority charges a fee, based on the amount of water pumped from a well, to the owners of wells located within the boundaries of the Authority, unless exempted. As of December 31, 2019, the fees are \$3.85 per 1,000 gallons of water pumped from each well and \$4.30 per 1,000 gallons of surface water purchased. Purchased water costs paid to MUD 542 include the District’s share of Authority fees.

NOTE 12. UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. As a result, economic uncertainties have arisen which are likely to have an impact on the operations of the District. The District is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty, as the potential financial impact of this pandemic is unknown at this time.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$	\$ 14,000	\$	\$ (14,000)
Water Service	15,000	21,200	14,321	(6,879)
Wastewater Service	10,000	10,500	20,238	9,738
Regional Water Authority Fee			14,804	14,804
Penalty and Interest			606	606
Tap Connection and Inspection Fees	75,000	225,000	242,170	17,170
Miscellaneous Revenues			2,280	2,280
TOTAL REVENUES	<u>\$ 100,000</u>	<u>\$ 270,700</u>	<u>\$ 294,419</u>	<u>\$ 23,719</u>
EXPENDITURES				
Service Operations:				
Professional Fees	\$ 150,000	\$ 169,000	\$ 131,403	\$ 37,597
Contracted Services	7,500	13,000	18,785	(5,785)
Purchased Water Service	75,000	120,000	123,757	(3,757)
Purchased Wastewater Service	75,000	45,000	37,484	7,516
Purchased Drainage Service	25,000	45,000	46,413	(1,413)
Repairs and Maintenance	25,000	65,000	88,822	(23,822)
Other	70,700	125,700	143,934	(18,234)
Capital Outlay			49,555	(49,555)
TOTAL EXPENDITURES	<u>\$ 428,200</u>	<u>\$ 582,700</u>	<u>\$ 640,153</u>	<u>\$ (57,453)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (328,200)</u>	<u>\$ (312,000)</u>	<u>\$ (345,734)</u>	<u>\$ (33,734)</u>
OTHER FINANCING SOURCES(USES)				
Developer Advances	<u>\$ 330,000</u>	<u>\$ 312,000</u>	<u>\$ 325,000</u>	<u>\$ 13,000</u>
NET CHANGE IN FUND BALANCE	\$ 1,800	\$ -0-	\$ (20,734)	\$ (20,734)
FUND BALANCE - INCEPTION, FEBRUARY 11, 2019				
FUND BALANCE - DECEMBER 31, 2019	<u>\$ 1,800</u>	<u>\$ -0-</u>	<u>\$ (20,734)</u>	<u>\$ (20,734)</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558

SUPPLEMENTARY INFORMATION REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

DECEMBER 31, 2019

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

2. RETAIL SERVICE PROVIDERS

Based on the rate order effective August 22, 2019.

District employs winter averaging for wastewater usage?	<u>Yes</u>	<u>X</u> No
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See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
SERVICES AND RATES
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>149</u>	<u>149</u>	x 1.0	<u>149</u>
1"			x 2.5	
1½"	<u>1</u>	<u>1</u>	x 5.0	<u>5</u>
2"	<u>1</u>	<u>1</u>	x 8.0	<u>8</u>
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>151</u>	<u>151</u>		<u>162</u>
Total Wastewater Connections	<u>150</u>	<u>150</u>	x 1.0	<u>150</u>

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

Gallons billed to customers: 3,584,000 Water Accountability Ratio: 100%
(Gallons billed/Gallons purchased)

Total Gallons Purchased: 3,584,000 From: Harris County Municipal Utility
District No. 542

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
SERVICES AND RATES
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all X

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

Entirely X Partly Not at all

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes No X

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
GENERAL FUND EXPENDITURES
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019

PROFESSIONAL FEES:	
Engineering	\$ 4,704
Legal	<u>126,699</u>
TOTAL PROFESSIONAL FEES	<u>\$ 131,403</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 123,757
Purchased Wastewater Service	37,484
Purchased Drainage Service	<u>46,413</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 207,654</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 5,700
Operations and Billing	5,204
Solid Waste Disposal	6,581
Tax Collector	<u>1,300</u>
TOTAL CONTRACTED SERVICES	<u>\$ 18,785</u>
REPAIRS AND MAINTENANCE	<u>\$ 88,822</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 8,100
Election Costs	990
Insurance	2,698
Legal Notices	239
Office Supplies and Postage	2,811
Payroll Taxes	619
Travel and Meetings	1,291
Other	<u>1,973</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 18,721</u>
TOTAL CAPITAL OUTLAY	<u>\$ 49,555</u>
TAP CONNECTIONS	<u>\$ 96,970</u>
OTHER EXPENDITURES:	
Inspection Fees	\$ 28,130
Regulatory Assessment	<u>113</u>
TOTAL OTHER EXPENDITURES	<u>\$ 28,243</u>
TOTAL EXPENDITURES	<u>\$ 640,153</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
TAXES LEVIED AND RECEIVABLE
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019

	<u>Maintenance Taxes</u>	
TAXES RECEIVABLE -		
INCEPTION, FEBRUARY 11, 2019	\$ -0-	
Adjustments to Beginning Balance	<u> </u>	\$ -0-
Original 2019 Tax Levy	\$ 15,774	
Adjustment to 2019 Tax Levy	<u>73,077</u>	<u>88,851</u>
TOTAL TO BE ACCOUNTED FOR		\$ 88,851
TAX COLLECTIONS:		
Prior Year	\$	
Current Year	<u>24,419</u>	<u>24,419</u>
TAXES RECEIVABLE - DECEMBER 31, 2019		<u>\$ 64,432</u>
TAXES RECEIVABLE BY YEAR:		
2019		<u>\$ 64,432</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
TAXES LEVIED AND RECEIVABLE
FOR THE INCEPTION PERIOD ENDED DECEMBER 31, 2019

	<u>2019</u>
PROPERTY VALUATIONS:	
Land	\$ 4,499,040
Improvements	2,089,314
Exemptions	<u>(6,795)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 6,581,559</u>
TAX RATES PER \$100 VALUATION:	
Maintenance	<u>\$ 1.35</u>
ADJUSTED TAX LEVY*	<u>\$ 88,851</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>27.48 %</u>

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

Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on May 4, 2019.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – INCEPTION PERIOD

	<u>Amounts</u>	<u>Percentage of Total Revenues</u>
	<u>2019</u>	<u>2019</u>
REVENUES		
Water Service	\$ 14,321	4.8
Wastewater Service	20,238	6.9
Regional Water Authority Fee	14,804	5.0
Penalty and Interest	606	0.2
Tap Connection and Inspection Fees	242,170	82.3
Miscellaneous Revenues	<u>2,280</u>	<u>0.8</u>
TOTAL REVENUES	<u>\$ 294,419</u>	<u>100.0 %</u>
EXPENDITURES		
Professional Fees	\$ 131,403	44.6 %
Contracted Services	18,785	6.4
Purchased Water Service	123,757	42.0
Purchased Wastewater Service	37,484	12.7
Purchased Drainage Service	46,413	15.8
Repairs and Maintenance	88,822	30.2
Other	143,934	48.9
Capital Outlay	<u>49,555</u>	<u>16.8</u>
TOTAL EXPENDITURES	<u>\$ 640,153</u>	<u>217.4 %</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (345,734)</u>	<u>(117.4) %</u>
OTHER FINANCING SOURCES (USES)		
Developer Advances	<u>\$ 325,000</u>	
NET CHANGE IN FUND BALANCE	\$ (20,734)	
INCEPTION FUND BALANCE	<u> </u>	
ENDING FUND BALANCE	<u><u>\$ (20,734)</u></u>	
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>151</u>	
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>150</u>	

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2019

District Mailing Address - Harris County Municipal Utility District No. 558
c/o Allen Boone Humphries Robinson LLP
3200 Southwest Freeway, Suite 2600
Houston, TX 77027

District Telephone Number - (713) 860-6400

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the inception period ended December 31, 2019	Expense Reimbursements for the inception period ended December 31, 2019	Title
Steve Bonjonia	05/19 05/20 (Elected)	\$ 1,500	\$ 305	President
Glynda Cross-Paris	05/19 05/22 (Elected)	\$ 1,800	\$ 55	Vice President
Christi Miller	05/19 05/20 (Elected)	\$ 1,500	\$ 304	Secretary
Brian Dierschke	05/19 05/22 (Elected)	\$ 1,650	\$ 130	Assistant Secretary
Mark Nelson	05/19 05/22 (Elected)	\$ 1,650	\$ 498	Assistant Vice President

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

Submission date of most recent District Registration Form: May 29, 2019

The limit on Fees of Office that a Director may receive during a fiscal year is the maximum amount allowed by law as set by Board Resolution on February 11, 2019. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 558
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2019

Consultants:	<u>Date Hired</u>	<u>Fees for the Inception Period ended December 31, 2019</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	02/11/19	\$ 126,699	General Counsel
McCall Gibson Swedlund Barfoot PLLC	12/19/19	\$ -0-	Auditor
Myrtle Cruz, Inc.	03/28/19	\$ 6,476	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	04/25/19	\$ -0-	Delinquent Tax Attorney
Costello, Inc.	03/28/19	\$ 4,704	Engineer
Mary Jarmon	03/28/19	\$ -0-	Investment Officer
Masterson Advisors LLC	03/28/19	\$ -0-	Financial Advisor
Utility Tax Service, LLC	03/28/19	\$ -0-	Tax Assessor/ Collector
Municipal District Services, LLC	04/25/19	\$ 220,539	Operator

See accompanying independent auditor's report.

APPENDIX B

Unaudited Financial Information Concerning GP 344 Ltd.

GP 344, LTD. ("GP 344") has delivered the unaudited financial information (the financial information is not covered by an auditor's report) included in this Appendix (the "Financial Information") to the District for publication in connection with the District's offer and sale of Bonds. The Financial Information has been included herein solely as additional information concerning GP 344, its financial condition and source of funds. Such Financial Information is relevant, among other reasons, to the ability of GP 344 to continue developing its property within the District and to pay ad valorem taxes thereon. GP 344 is not responsible for, liable for, and has not made any commitment for the payment of the Bonds or any other obligations of the District, and the inclusion of the Financial Information herein should not be construed as an implication to that effect. GP 344 has no legal commitment to the District or holders of the Bonds to continue development of its land within the District and GP 344 may sell or otherwise dispose of its property within the District, or any of its other assets, at any time. Further, the financial condition of GP 344 is subject to change, and no financial information concerning GP 344 will be provided by the District after the sale of the Bonds, other than as described in "CONTINUING DISCLOSURE OF INFORMATION—Annual Reports." Therefore, the District cautions that the Financial Information should not be construed or interpreted as an indication of the investment security of the Bonds or of any other securities proposed to be issued by the District.

GP 344 represented to the District that the Financial Information has been prepared from its books and records, is in conformity with generally accepted accounting principles, fairly represents the financial condition of GP 344 as of the dates indicated and does not fail to disclose any material fact or omit to state any material facts necessary to make such Financial Information not misleading, and that there has not been any material adverse change in the financial condition of GP 344 since the dates at which the Financial Information is presented.

GP 344, LTD.

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GP 344, LTD.
BALANCE SHEET
DECEMBER 31, 2019
(UNAUDITED)

ASSETS

CASH AND CASH EQUIVALENTS	\$	1,158,536
ACCOUNTS RECEIVABLE		3,782,116
LAND AND LAND UNDER DEVELOPMENT		3,174,591
INVESTMENT IN UNDIVIDED INTEREST IN REAL PROPERTY		19,550,411
TOTAL	\$	<u>27,665,654</u>

LIABILITIES AND EQUITY

ACCRUED LIABILITIES	\$	1,229,395
NOTE PAYABLE		1,000,000
TOTAL LIABILITIES		<u>2,229,395</u>
PARTNER EQUITY		25,436,259
TOTAL	\$	<u>27,665,654</u>

GP 344, LTD.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)

SALE OF LOTS	\$ 5,107,790
COST OF LOT SALES	(4,972,000)
GROSS PROFIT	<hr/> 135,790
OPERATING EXPENSES:	
Advertising expense	116,365
Professional fees	6,023
TOTAL OPERATING EXPENSES	<hr/> 122,388
OPERATING INCOME	13,402
OTHER INCOME (EXPENSE):	
Interest income	272,943
Interest expense	(5,479)
Other income	202,500
TOTAL OTHER INCOME (EXPENSE)	<hr/> 469,964
NET INCOME	<hr/> <hr/> \$ 483,366

GP 344, LTD.
STATEMENT OF PARTNERS' EQUITY
DECEMBER 31, 2019
(UNAUDITED)

EQUITY 1/1/2019	\$ 17,452,893
CAPITAL CONTRIBUTIONS	7,500,000
NET INCOME	483,366
EQUITY 12/31/19	<u>\$ 25,436,259</u>

GP 344, LTD.
STATEMENT OF CASH FLOWS
DECEMBER 31, 2019
(UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 483,366
Adjustments to reconcile net income to net cash provided by operating activities:	
Increase in accounts receivable	(1,297,324)
Decrease in land and land under development	2,108,218
Decrease in accrued liabilities	<u>1,239,680</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,533,940</u>
---	------------------

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments in undivided interest in real property	<u>(10,187,526)</u>
--	---------------------

NET CASH USED IN INVESTING ACTIVITIES	<u>(10,187,526)</u>
---------------------------------------	---------------------

CASH FLOWS FROM FINANCING ACTIVITIES:

Borrowings on notes payable	1,000,000
Contributions from partners	<u>7,500,000</u>

NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>8,500,000</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS	846,414
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CASH AND CASH EQUIVALENTS:

Beginning of year	<u>312,122</u>
End of year	<u><u>\$ 1,158,536</u></u>

GP 344, LTD.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

1. ORGANIZATION

Organization— GP 344, Ltd. (the "Partnership"), was formed on January 8, 2018, as a Texas limited partnership, pursuant to the provisions of the Texas Business Organizations Code.

The Partnership was organized to acquire an undivided ½ interest in 372 acres composed of a 344 acre tract and a 28 acre tract (the "Property") located in the Tomball, Texas area. The Partnership entered into a Joint Development Agreement ("JDA"), dated January 16, 2018, with Beazer Homes, Texas, LP ("Beazer"), to jointly develop the Property.

Pursuant to the JDA, as amended, the Partnership and Beazer will develop the Property into lots suitable for the construction of single family residences, and to sell such lots to Perry Homes, LLC, a Texas limited liability company ("Perry"), Beazer, and other builders as the Partnership and Beazer may determine.

The Partnership agreement provides for one general partner and one limited partner with ownership interests of 1% and 99% respectively. PSWA, Inc. ("PSWA") is the general partner and Perry is the limited partner.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition—Revenues from real estate sales are recognized in accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. Revenue from lot sales is recognized at the time title transfers.

Cash and Cash Equivalents—The Partnership generally considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Development Reimbursables—The Partnership incurred and will continue to incur certain costs of common improvements such as roads, water, sewer, drainage facilities, etc. on the behalf of a municipal utility district ("District"). The District will reimburse the Partnership once it issues District bonds in the future. A current analysis prepared by the financial advisor to the District projects that the bonds will be sold from 2020– 2022. The Partnership will receive reimbursements equal to the cost of the development permitted under the terms of the Financing and Reimbursement Agreement ("Agreement") with the District plus interest on the development costs as defined in the Agreement. Reimbursements receivable at December 31, 2019 includes \$298,522 in interest on the costs of the development.

Concentration of Credit Risk—The Partnership maintains cash balances in excess of federally insured limits with financial institutions. The Partnership could be subject to significant loss of cash if one of the financial institutions fails.

Land and Land Under Development— Land and land under development is valued at the lower of cost or fair value. Costs on land under development include all direct costs of land development and other carrying costs incurred during the development period.

The Partnership evaluates these assets for recoverability in accordance with ASC Topic 360, whenever indicators of potential impairment exist. When an indicator of potential impairment is identified, the Partnership tests the asset for recoverability by comparing the carrying amount of the asset to the undiscounted future net cash flows expected to be generated by the asset.

The carrying value of impaired assets is written down to fair value through an impairment charge, which is primarily based on projected and estimated future cash flows. Due to the judgment and assumptions applied in the estimation process, it is possible that actual results could differ from those estimated.

Based on the results of such evaluation, the Partnership did not recognize any impairment charge in 2019.

Income Taxes—No federal income taxes are provided on the income of the Partnership. The partners report their allocable shares of the profits and losses separately and taxes are liabilities of the partners and depend upon their respective tax situations.

Management Estimates—In connection with the preparation of the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. Actual results could differ from these estimates.

Recently Adopted Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s), which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. In August 2015, the FASB Issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018. The adoption of ASU 2014-09 did not have a material effect on the Partnership's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 provides guidance on how certain cash receipts and cash payments are to be presented and classified in the consolidated statement of cash flows. ASU 2016-15 is effective for the Partnership's fiscal year beginning after December 15, 2018. The adoption of ASU 2016-15 did not have a material effect on the Partnership's consolidated financial statements.

New Accounting Pronouncements—In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”). ASU 2018-13 modifies the disclosure requirements of fair value measurements and removes the requirement to disclose (1) the amount of and reasons for the transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, and (3) the valuation processes for Level 3 fair value measurements. ASU 2018-13 requires disclosures of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the year period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for the Partnership’s fiscal year beginning after December 15, 2019. The adoption of ASU 2018-13 is not expected to have a material effect on its consolidated financial statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2019, is summarized as follows:

Development reimbursables	\$ 2,557,458
Related party receivable	1,130,668
Interest receivable	87,704
Accounts receivable - trade	<u>6,286</u>
Total	<u>\$ 3,782,116</u>

The development reimbursables will be collected when the unlimited tax bonds are sold by the utility districts. A current analysis prepared by management projects that \$2.8M of the development reimbursables will be collected during 2020 and the remaining balance will be collected within 3 years following 2019.

4. INVESTMENT IN UNDIVIDED INTEREST IN REAL PROPERTY

Investment in Undivided Interest in Real Property as of December 31, 2019, is summarized as follows:

Land and land under development	\$ 13,684,625
Development reimbursable	6,147,476
Interest receivable	210,818
Accrued property tax	<u>(492,508)</u>
Total	<u>\$ 19,550,411</u>

The investment in undivided interest in real property represents a 50% undivided interest in land and land under development. In accordance with ASC Topic 970-323, Equity Method and Joint Ventures, the equity method is used to account for the Partnership’s undivided interest in real property because of joint control by the owners of the undivided interests as part of a joint development agreement.

5. ACCRUED LIABILITIES

Accrued liabilities as of December 31, 2019, is summarized as follows:

Accrued development cost	\$ 1,043,459
Accrued property tax	114,253
Related party payable	71,225
Accounts payable	<u>458</u>
Total	<u>\$ 1,229,395</u>

6. NOTE PAYABLE

Note payable as of December 31, 2019 consists of a \$1 million unsecured note payable to Perry Homes, LLC. Interest is paid quarterly at a rate of 5%. The note expires on November 30, 2021. During 2019, the Partnership borrowed \$1 million on November 22, 2019 and made no payments on the note.

The note agreement contains various covenants, including a minimum loan to value ratio. The Partnership was in compliance with all covenants as of December 31, 2019.

7. SUPPLEMENTAL CASH FLOW DISCLOSURES

Supplemental cash flow disclosures for the year ended December 31, 2019, are as follows:

Noncash net assets (liabilities) acquired upon division of interest in real property	<u>\$ 7,696,573</u>
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8. PARTNERS' ALLOCATION

Contributions – Partners have agreed to make capital contributions as needed based on their respective percentage interests, as defined in the Partnership agreement. The partners contributed \$7,500,000 to the Partnership for the year ended December 31, 2019.

Distributions – The Partnership reviews the partnership accounts at the end of the calendar year to determine where distributions are appropriate, to be made in accordance with their respective Partnership interests. No distributions were made by the partners for the year ended December 31, 2019.

Income and Loss Allocation – The income and loss of the Partnership is allocated to the partners in accordance with their respective Partnership interests.

9. RELATED PARTY TRANSACTIONS

The Partnership received \$5,107,790 from the sale of 90 developed lots to Perry for the year ended December 31, 2019.

The Partnership borrowed \$1 million from Perry during the year ended December 31, 2019. Interest expense of \$5,479 on the note payable was incurred during the year ended December 31, 2019.

Perry Development Management, Inc ("PDMI"), an affiliate entity of Perry, provides supervisory services in connection with the management of the development project. In consideration for such supervisory services, PDMI receives compensation in an amount equal to \$500 per developed lot, payable at the time the lot is sold to Perry, Beazer or another builder. There were 90 lot sales for the year ended December 31, 2019. PDMI received \$45,000 in management fees from the Partnership in 2019.

Perry agreed to supplement the advertising budget of the Partnership by paying an additional \$2,250 fee per lot to the Partnership as lots are sold by the Partnership. These funds are collected by the Partnership and are used for community advertisement. In 2019, the Partnership received \$202,500 based on 90 lot sales, which is included in other income in the statement of operations.

10. SUBSEQUENT EVENTS

In January 2020, the Partnership acquired an undivided ½ interest in an additional 112.95 acres composed of two (2) tracts being a 21.55 acre tract and 91.40 acre tract (the "Additional Property") for \$5,512,500. The JDA was amended to include the Additional Property. The Additional Property is located adjacent to, or in the general vicinity of, the Property.

The Partnership has evaluated subsequent events after December 31, 2019, up through July 31, 2020, the date the financial statements were available for issuance.

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