

OFFICIAL STATEMENT DATED FEBRUARY 11, 2015

NEW ISSUE-BOOK-ENTRY-ONLY

**Ratings: AGM Insured: S&P “AA” (Stable Outlook); Moody’s “A2” (Stable Outlook); Moody’s Underlying “Baa3”
See “MUNICIPAL BOND RATINGS” AND “BOND INSURANCE”.**

Delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax consequences for corporations.

THE BONDS WILL NOT BE DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS.”

\$6,605,000

**Harris County Municipal Utility District No. 433
(A Political Subdivision of the State of Texas Located in Harris County, Texas)**

UNLIMITED TAX BONDS, SERIES 2015

Dated: March 1, 2015

Due: September 1, as shown on inside cover page

The Bonds described above (“the Bonds”) are obligations solely of Harris County Municipal Utility District No. 433 (the “District”) and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any entity other than the District.

Interest on the Bonds will accrue from March 1, 2015 and is payable September 1, 2015 and each March 1 and September 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrars for the Bonds shall be BOKF, N.A., dba Bank of Texas, Austin, Texas (the “Paying Agent”).

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** See “BOND INSURANCE.”



MATURITY SCHEDULE and REDEMPTION PROVISIONS

(see inside cover page)

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. See "THE BONDS - Source of and Security for Payment." THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Houston Texas, Bond Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about March 11, 2015 in Houston, Texas.

MATURITIES
(Due September 1)

Due	Principal Amount	Interest Rate^(a)	Initial Reoffering Yield^(b)	CUSIP Number^(c)	Due	Principal Amount	Interest Rate^(a)	Initial Reoffering Yield^(b)	CUSIP Number^(c)
2015	\$150,000	4.000%	0.500%	41422SBB7	2025 *	\$200,000	3.000%	3.000%	41422SBM3
2016	175,000	4.000%	0.850%	41422SBC5	2026 *	200,000	3.000%	3.100%	41422SBN1
2017	175,000	4.000%	1.200%	41422SBD3	2027 *	225,000	3.000%	3.200%	41422SBP6
2018	200,000	4.000%	1.450%	41422SBE1	2028 *	225,000	3.000%	3.300%	41422SBQ4
2019	200,000	3.000%	1.700%	41422SBF8	2029 *	250,000	3.125%	3.400%	41422SBR2
2020	200,000	3.000%	1.900%	41422SBG6	2030 *	250,000	3.250%	3.500%	41422SBS0
2021	200,000	3.000%	2.200%	41422SBH4	2031 *	275,000	3.375%	3.550%	41422SBT8
2022 *	200,000	3.000%	2.450%	41422SBJ0	2032 *	275,000	3.375%	3.600%	41422SBU5
2023 *	200,000	3.000%	2.650%	41422SBK7	2033 *	300,000	3.500%	3.650%	41422SBV3
2024 *	200,000	3.000%	2.850%	41422SBL5					
\$600,000 3.500% ^(a) Term Bond Due September 1, 2035* Yield 3.700% ^(b) CUSIP Number 41422SBX9 ^(c) \$625,000 3.625% ^(a) Term Bond Due September 1, 2037* Yield 3.800% ^(b) CUSIP Number 41422SBZ4 ^(c) \$1,280,000 3.625% ^(a) Term Bond Due September 1, 2039* Yield 3.850% ^(b) CUSIP Number 41422SCB6 ^(c)									

* Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2022 in whole or from time to time in part, on September 1, 2021, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2035, September 1, 2037 and September 1, 2039 (collectively, the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."

- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 97.285% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 3.615226%.
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first redemption date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser. The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from March 1, 2015 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the purchase price.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. Neither the Initial Purchaser, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

ASSURED GUARANTY MUNICIPAL CORP. ("AGM") MAKES NO REPRESENTATION REGARDING THE BONDS OR THE ADVISABILITY OF INVESTING IN THE BONDS. IN ADDITION, AGM HAS NOT INDEPENDENTLY VERIFIED, MAKES NO REPRESENTATION REGARDING, AND DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT OR ANY INFORMATION OR DISCLOSURE CONTAINED HEREIN, OR OMITTED HEREFROM, OTHER THAN WITH RESPECT TO THE ACCURACY OF THE INFORMATION REGARDING AGM SUPPLIED BY AGM AND PRESENTED UNDER THE HEADING "BOND INSURANCE" AND "APPENDIX C - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT.....	4	Retail Development.....	28
SALE AND DISTRIBUTION PRICES AND		Future Development.....	28
MARKETABILITY OF THE BONDS.....	4	THE DEVELOPER.....	28
Initial Purchaser.....	4	General.....	28
Issue Price Certificate.....	4	Description of Developer.....	28
Prices and Marketability.....	4	Mischer Development, L.P.....	28
Securities Laws.....	4	THE SYSTEM.....	29
MUNICIPAL BOND RATINGS.....	5	Regulation.....	29
BOND INSURANCE.....	5	Water Supply and Distribution.....	29
Bond Insurance Policy.....	5	Subsidence and Conversion to Surface Water Supply.....	29
Assured Guaranty Municipal Corp.....	5	Wastewater Collection and Treatment.....	30
OFFICIAL STATEMENT SUMMARY.....	7	100-Year Flood Plain.....	30
THE DISTRICT.....	7	Water and Wastewater Operations.....	30
THE BONDS.....	8	Operating Revenues and Expenses Statement - Table 2.....	31
INVESTMENT CONSIDERATIONS.....	9	DEBT SERVICE REQUIREMENTS - TABLE 3.....	32
SELECTED FINANCIAL INFORMATION.....	10	FINANCIAL STATEMENT.....	33
OFFICIAL STATEMENT.....	11	Assessed Value - Table 4.....	33
INTRODUCTION.....	11	Unlimited Tax Bonds Authorized but Unissued - Table 5.....	33
THE BONDS.....	11	Outstanding Bonds - Table 6.....	34
General Description.....	11	Cash and Investment Balances - Table 7.....	34
Redemption.....	11	Investment Authority and Investment Practices of the District.....	34
Termination of Book-Entry-Only System.....	12	Current Investments - Table 8.....	35
Authority for Issuance.....	13	Estimated Overlapping Debt Statement.....	35
Source of and Security for Payment.....	13	Overlapping Taxes for 2014.....	36
Payment Record.....	13	TAX DATA.....	37
Flow of Funds.....	13	Classification of Assessed Valuation - Table 9.....	37
Defeasance of Outstanding Bonds.....	13	Tax Collections - Table 10.....	37
Paying Agent/Registrar.....	14	District Tax Rates - Table 11.....	37
Record Date.....	14	Tax Rate Limitation.....	37
Issuance of Additional Debt.....	14	Maintenance Tax.....	37
Lost, Stolen, Mutilated or Destroyed Bonds.....	14	Principal Taxpayers - Table 12.....	38
Legal Investment and Eligibility to Secure Public Funds in		Tax Adequacy for Debt Service.....	38
Texas.....	14	Bond Fund Management Index.....	39
Specific Tax Covenants.....	15	TAXING PROCEDURES.....	39
Additional Covenants.....	15	Authority to Levy Taxes.....	39
Remedies in Event of Default.....	15	Property Tax Code and County-Wide Appraisal District.....	39
Annexation by the City of Houston.....	15	Property Subject to Taxation by the District.....	39
Consolidation.....	16	Tax Abatement.....	40
Alteration of Boundaries.....	16	Valuation of Property for Taxation.....	40
No Arbitrage.....	16	District and Taxpayer Remedies.....	41
Approval of the Bonds.....	16	Levy and Collection of Taxes.....	41
Amendments to Bond Order.....	16	Rollback of Operation and Maintenance Tax Rate.....	41
BOOK-ENTRY-ONLY SYSTEM.....	17	District's Rights in the Event of Tax Delinquencies.....	41
USE AND DISTRIBUTION OF BOND PROCEEDS.....	19	LEGAL MATTERS.....	42
INVESTMENT CONSIDERATIONS.....	20	Legal Opinions.....	42
General.....	20	No-Litigation Certificate.....	42
Factors Affecting Taxable Values and Tax Payments.....	20	No Material Adverse Change.....	42
Future and Proposed Legislation.....	21	TAX MATTERS.....	42
Tax Collections and Foreclosure Remedies.....	21	Tax Exemption.....	42
Bond Insurance Risks.....	21	Tax Accounting Treatment of Discount and Premium on Certain	
Registered Owners' Remedies.....	21	Bonds.....	43
Bankruptcy Limitation to Registered Owners' Rights.....	22	CONTINUING DISCLOSURE OF INFORMATION.....	44
The Effect of the Financial Institutions Act of 1989 on Tax		Annual Reports.....	44
Collections of the District.....	22	Notice of Certain Events.....	44
Marketability.....	22	Availability of Information from MSRB.....	45
Continuing Compliance with Certain Covenants.....	22	Limitations and Amendments.....	45
Future Debt.....	22	Compliance with Prior Undertakings.....	45
Environmental Regulation.....	23	FINANCIAL ADVISOR.....	45
Approval of the Bonds.....	24	OFFICIAL STATEMENT.....	45
Forward Looking Statements.....	24	Preparation.....	45
LOCATION MAP.....	25	Consultants.....	46
THE DISTRICT.....	26	Updating the Official Statement during Underwriting Period.....	46
General.....	26	Certification as to Official Statement.....	46
Management of the District.....	26	Annual Audits.....	46
Consultants.....	26	PHOTOGRAPHS.....	
Location.....	26	APPENDIX A – Audited Financial Statement.....	
Status of Development.....	27	APPENDIX B – Form of Bond Counsel Opinion.....	
Residential Development.....	27	APPENDIX C – Specimen Municipal Bond Insurance Policy.....	
Home Builders.....	27		

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not alone constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, contracts, records, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Norton Rose Fulbright US LLP, 1301 McKinney, 51st Floor, Houston, Texas 77010.

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 the 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, until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "OFFICIAL STATEMENT -Updating the Official Statement During Underwriting Period" and "CONTINUING DISCLOSURE OF INFORMATION."

NEITHER THE DISTRICT NOR THE FINANCIAL ADVISOR MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE INSURER.

SALE AND DISTRIBUTION PRICES AND MARKETABILITY OF THE BONDS

Initial Purchaser

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser" or the "Underwriter") bearing the lowest interest rates shown on the inside cover page hereof, at a price of 97.285% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.615226%, as calculated pursuant to Texas Government Code Chapter 1204, as amended (the "IBA" method).

Issue Price Certificate

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

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 Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the 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; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for

registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

MUNICIPAL BOND RATINGS

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Moody's Investors Service, Inc. ("Moody's") are expected to assign ratings of "AA" (stable outlook) and "A2" (stable outlook), respectively, to the Bonds, as a result of a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. ("AGM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's has assigned an underlying rating of "Baa3" to the Bonds.

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company, circumstance warrant. Any such downward revision or withdrawal of such rating may have an adverse effect of the market price of the Bonds.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

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

Assured Guaranty Municipal Corp.

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

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

Current Financial Strength Ratings

On November 13, 2014, KBRA assigned an insurance financial strength rating of "AA+" (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Capitalization of AGM

At September 30, 2014, AGM's policyholders' surplus and contingency reserve were approximately \$3,683 million and its net unearned premium reserve was approximately \$1,810 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (filed by AGL with the SEC on February 28, 2014);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 (filed by AGL with the SEC on May 9, 2014);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 (filed by AGL with the SEC on August 8, 2014); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014 (filed by AGL with the SEC on November 7, 2014).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

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

[The remainder of this page intentionally left blank]

OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE DISTRICT

- The District..... Harris County Municipal Utility District No. 433 (the “District”), located in Harris County, Texas, was created, along with the adjacent Harris County Municipal Utility District No. 435 (“HCMUD 435”), by order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), effective January 17, 2006. Both the District and HCMUD 435 were confirmed pursuant to elections held within each district on May 13, 2006. On May 14, 2011, HCMUD 435 and the District held elections consolidating the District with HCMUD 435 by terms of a consolidation agreement dated February 1, 2011 (the “Consolidation Agreement”). The terms of the Consolidation Agreement included, among other matters, the assumption of voted but unissued bonds payable in whole or in part from taxes, the levy of taxes to pay for bonds, and the adoption of the District as the name of the consolidated district. The District, a political subdivision of the State of Texas, was created for the purpose of providing, operating, and maintain facilities to control storm water, distribute potable water, and to collect and treat wastewater, and operates pursuant to Chapters 49 and 54 of the Texas Water Code and Article XVI, Section 59 of the Texas Constitution, both as amended. See “THE DISTRICT – General.”

- Location The District is located in Harris County within the extraterritorial jurisdiction of the City of Houston, approximately 25 miles northwest of downtown Houston and south of the intersection of U.S. Highway 290 and Fry Road. The District is located entirely within the jurisdiction of the Cypress-Fairbanks Independent School District. Access to the District is provided by U.S. Highway 290 to Fry Road. See “THE DISTRICT - Location.”

- The Developer The developer currently active within the District is Mischer Development, LP (“Mischer”), a Texas Limited Partnership comprised of Mischer Investments, L.P., a Texas Limited Partnership (“Investments”) (owning 99% limited partner interest) and Mischer Management, L.L.C., a Texas Limited Liability Company (“Management”) (owning 1% general partner interest). Mary A. Mischer, Walter M. Mischer Jr., and Paula Mischer are the sole members of Management. The ownership of Investments is held by members of the Mischer family. See “THE DEVELOPER.”

- Status of Development within the District..... Of the approximate 797 acres encompassed by the District, approximately 665 are developable. As of January 1, 2015, approximately 504 acres (or 75.78% of the approximately 665 developable acres within the District) have been or are currently being developed with utility facilities as the single family residential subdivision Cypress Creek Lakes. As of January 1, 2015, development within the District included 812 developed single family lots, 617 completed homes, 56 homes under construction (of which 29 are under contract to a homebuyer), and 139 vacant developed single family lots. Additionally, construction of utility facilities to serve Cypress Creek Lakes Section 15 (13.00 acres; platted as 42 single family lots) began in September 2014 and is expected to be completed by February 2015; construction of utility facilities to serve Cypress Creek Lakes Section 26 (39.51 acres; platted as 121 single family lots) began in November 2014 and is expected to be completed by March 2015; and construction of utility facilities to serve Cypress Creek Lakes Section 25 (61.96 acres; platted as 102 single family lots) began in January 2015 and is expected to be completed by May 2015. HEB Grocery Company, Inc. (“HEB”) began construction on an approximately 98,000 square foot HEB Grocery Store in December 2014, which is expected to open in July 2015. In addition, the District currently contains nine lakes totaling approximately 34.4 acres and two recreation centers on approximately 8.04 acres. See “THE DISTRICT - Status of Development.”

- Builders..... According to the Developer, there are seven homebuilders currently active within the District including: Ashton Woods Homes, Darling Homes, Lennar Homes, Newmark Homes, Perry Homes, Village Builders and Taylor Morrison Homes. The Developer has also represented that the homes within the District are being constructed on four lot sizes (50’, 60’, 70’ and 80’) with starting prices that range from \$259,990 to \$650,000, and with square footage starting at 1,800 square feet. See “THE DISTRICT – Status of Development – Home Builders.”

THE BONDS

Description	The Bonds in the aggregate principal amount of \$6,605,000 mature serially in varying amounts on September 1 of each year from 2015 through 2033 and as Term Bonds which mature September 1, 2035, September 1, 2037 and September 1, 2039, as set forth on the inside cover page hereof. Interest accrues from March 1, 2015 at the rates per annum set forth on the inside cover page hereof and is payable September 1, 2015 and each March 1 and September 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."
Redemption	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2022, in whole or from time to time in part, on September 1, 2021, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2035, September 1, 2037 and September 1, 2039 are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the City of Houston, Texas; Harris County, Texas; the State of Texas; or any entity other than the District. See "THE BONDS - Source of and Security for Payment."
Payment Record	The Bonds constitute the second installment of bonds issued by the District. The District has never defaulted on the timely payment of principal and interest on its outstanding bonds entitled "\$8,600,000 Harris County Municipal Utility District No. 433, Unlimited Tax Bonds, Series 2014" (the "Outstanding Bonds"). The proceeds of the Outstanding Bonds included 24 months of capitalized interest. See "FINANCIAL STATEMENT – Outstanding Bonds."
Authority for Issuance	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 54 of the Texas Water Code, as amended; a bond election held within the District on November 8, 2011; the approving order of the TCEQ; and an order adopted by the Board of Directors of the District on the date of the sale of the Bonds. See "THE BONDS - Authority for Issuance."
Bonds Authorized But Unissued.....	At an election held within the District on November 8, 2011, the voters within the District approved the issuance of \$200,000,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have \$184,795,000 remaining in authorized but unissued bonds for water, wastewater and drainage facilities. Additionally, at the election held in the District on November 8, 2011, the voters within the District also approved the issuance of \$20,000,000 in bonds for the acquisition and construction of parks and recreational facilities and \$15,000,000 in bonds for the acquisition and construction of roads, all of which remain authorized by unissued. See "FINANCIAL STATEMENT - Outstanding Bonds and Unlimited Tax Bonds Authorized but Unissued" and "THE BONDS – Issuance of Additional Debt."
Use of Proceeds.....	Proceeds from the sale of the Bonds will be used to finance: (i) Water Plant No. 1 – add ground storage tank No. 2 and crushed concrete access road; (ii) Wastewater treatment plant ("WWTP") expansion Phase 2; (iii) WWTP permits; (iv) Cypress Creek Lakes drainage channel Phase 1; (v) Land Tejas easement purchase; (vi) Centerpoint right of way easement purchase; (vii) Langham Creek/drainage ditch U132-00 connection; (viii) Gas pipeline relocation; (ix) Land costs – Cypress Creek Lakes drainage channel and drainage channel U132-00; and (x) Operating advance/expenses. In addition, proceeds of the Bonds will be used to pay Developer Interest, up to two years capitalized interest and certain costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
Tax Exemption.....	In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS – Tax Exemption" herein. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for corporations. The Bonds are NOT "qualified tax-exempt obligations" for financial institutions.

Municipal Bond Ratings and Bond Insurance..... Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and Moody’s Investors Service, Inc. (“Moody’s”) are expected to assign ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to the Bonds, as a result of a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) at the time of delivery of the Bonds. Additionally, Moody’s has assigned an underlying rating of “Baa3” to the Bonds.

Bond Counsel & Disclosure Counsel..... Norton Rose Fulbright US LLP, Houston, Texas.

Financial Advisor..... Pubic Finance Group LLC, Austin, Texas.

Engineer..... Brown & Gay Engineers, Inc., Houston, Texas.

Paying Agent/Registrar..... BOKF, N.A., dba Bank of Texas, Austin, Texas.

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds involve certain investment considerations and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned "INVESTMENT CONSIDERATIONS," with respect to investment in the Bonds.

(The remainder of this page intentionally left blank)

SELECTED FINANCIAL INFORMATION
(Unaudited as of February 1, 2015)

2014 Certified Assessed Valuation	\$ 101,014,417 ^(a)
Estimated Assessed Valuation as of November 15, 2014	\$ 218,138,335 ^(b)
Gross Debt Outstanding (after the issuance of the Bonds)	\$ 15,105,000 ^(c)
Ratio of Gross Debt to 2014 Certified Assessed Valuation	14.95%
Ratio of Gross Debt to Estimated Assessed Valuation as of November 15, 2014	6.92%
2014 Tax Rate	
Debt Service	\$ 0.2410
Maintenance	<u>0.9590</u>
Total 2014 Tax Rate	\$ 1.2000 ^(d)
Bond Fund Balance (as of February 11, 2015)	\$ 694,860 ^(e)
Percentage of current tax collections (Tax Years 2011-2013)	100.00% ^(f)
Percentage of total tax collections (Tax Years 2011-2013)	100.00% ^(f)
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2015-2039, inclusive)	\$ 960,827
Tax Rate Required to pay Average Requirement based upon the 2014 Certified Assessed Valuation at 95% collections	\$1.01 /\$100 AV
Tax Rate Required to pay Average Requirement based upon the Estimated Assessed Valuation as of November 15, 2014 at 95% collections	\$0.47 /\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2035)	\$ 1,088,931
Tax Rate Required to pay Maximum Requirement based upon the 2014 Certified Assessed Valuation at 95% collections	\$1.14 /\$100 AV
Tax Rate Required to pay Maximum Requirement based upon the Estimated Assessed Valuation as of November 15, 2014 at 95% collections	\$0.53 /\$100 AV
Number of active connections as of January 1, 2015	
Single Family	617
Builder and Other	<u>56</u>
Total Number of Active Connections	673
Estimated Population as of January 1, 2015	2,160 ^(g)

- (a) Certified assessed valuation of the District as of January 1, 2014, as provided by the Harris County Appraisal District ("HCAD"). See "TAXING PROCEDURES."
- (b) Estimated assessed valuation as of November 15, 2014, as provided by HCAD, is included solely for purposes of illustration. No tax will be levied on such amount unless it is certified by HCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds.
- (d) The District levied a 2014 tax rate of \$1.20.
- (e) Unaudited as of February 11, 2015. Does not contain approximately twenty-four months' capitalized interest included in the Bond proceeds to be deposited into the Bond Fund upon closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Bond Fund.
- (f) See "TAX DATA – Tax Collections."
- (g) Based upon 3.5 residents per completed and occupied single family home.

OFFICIAL STATEMENT
relating to

\$6,605,000

Harris County Municipal Utility District No. 433
(A Political Subdivision of the State of Texas Located in Harris County, Texas)

UNLIMITED TAX BONDS, SERIES 2015

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Harris County Municipal Utility District No. 433 (the "District") of its Unlimited Tax Bonds, Series 2015 (the "Bonds"). The Bonds are issued pursuant to an order (the "Bond Order") adopted by the Board of Directors of the District, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and an order by the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission").

Included in this Official Statement are descriptions of the Bonds and the Bond Order. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District, c/o Norton Rose Fulbright US LLP, 1301 McKinney, 51st Floor, Houston, Texas 77010, upon payment of duplication costs.

THE BONDS

General Description

The \$6,605,000 Harris County Municipal Utility District No. 433 Unlimited Tax Bonds, Series 2015 will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof.

Interest on the Bonds will accrue from March 1, 2015 and is payable September 1, 2015, and each March 1 and September 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof. The initial paying agent/registrars for the Bonds shall be BOKF, N.A., dba Bank of Texas, Austin, Texas ("Paying Agent/Registrar"). The principal of and interest on the Bonds shall be payable without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debt due the United States of America. Interest on the Bonds (except for interest paid as part of the Redemption Price) which is payable, and which is paid on duly provided for on or within 10 days after any interest payment date shall be paid to the person to whom the Bond is registered on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date (the "Record Date"). All payments of interest shall be by check mailed, first-class postage prepaid, to the person entitled hereto at such person's address as it appears on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and such person at the risk and expense of such person.

If the specified date for any payment of principal (or Redemption Price) of or interest on the Bonds is a Saturday, Sunday, or legal holiday or equivalent (other than a moratorium) for banking institutions generally in the city in which the Place of Payment is located, such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY- ONLY SYSTEM."

Redemption

Optional Redemption . . . The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2022, in whole or from time to time in part, on September 1, 2021, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. Optional redemption of Bonds may be conditional of refunding bonds or other obligations to pay the Redemption Price.

Mandatory Sinking Fund Redemption . . . In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2035, September 1, 2037 and September 1, 2039 are subject to mandatory sinking fund redemption prior to maturity by lot in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Bond Fund:

\$600,000 Term Bond Maturing September 1, 2035*	
Mandatory	
Redemption	Principal
<u>Date</u>	<u>Amount</u>
2034	\$ 300,000
2035*	300,000

\$625,000 Term Bond Maturing September 1, 2037*	
Mandatory	
Redemption	Principal
<u>Date</u>	<u>Amount</u>
2036	\$ 300,000
2037*	325,000

\$1,280,000 Term Bond Maturing September 1, 2039*	
Mandatory	
Redemption	Principal
<u>Date</u>	<u>Amount</u>
2038	\$ 350,000
2039*	930,000

* Stated Maturity

The principal amount of the Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date: (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent for cancellation, (2) shall have been purchased and cancelled by the Paying Agent at the request of the District, with monies in the Debt Service Fund at a price not exceeding the principal amount of the Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

Notice of Redemption . . . At least 30 calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Paying Agent by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed; the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot.

Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the District, the following provisions will be applicable to the Bonds. See "BOOK-ENTRY-ONLY SYSTEM".

Payment The principal and Redemption Price of the Bonds is payable upon surrender at the Paying Agent/Registrar. If the specified date for any payment of principal (or Redemption Price) of or interest on the Bonds shall be a Saturday, Sunday, or legal holiday or equivalent (other than a moratorium) for banking institutions generally for the Paying Agent/Registrar, such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

Interest on any Bond which is payable, and which is paid or duly provided for on or within 10 days after, any Interest Payment Date shall be paid to the Person in whose name such Bond (or one or more Predecessor Bonds) is registered at the close of business on the Regular Record Date therefor. Any interest on any Bond which is payable on, but is not paid or duly provided for on or within 10 days after, any Interest Payment Date (herein referred to as "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date solely by virtue of such Holder having been such Holder; and such Defaulted Interest shall be paid to the Person in whose name such Bond (or one or more respective Predecessor Bonds) is registered at the close of business on a special record date (the "Special Record Date") for the payment of such Defaulted Interest. The Regular Record Date for the Bonds is the interest the 15th day (whether or not a business day) of the calendar month next preceding such Interest Payment Date.

If the specified date for any payment of principal (or Redemption Price) of or interest on the Bonds shall be a Saturday, Sunday, or legal holiday or equivalent (other than a moratorium) for banking institutions generally in the city of the Place of Payment, such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

Registration . . . Upon surrender for transfer of any Bond at the Place of Payment, the District will execute, and the Paying Agent/Registrar will register and deliver, in the name of the designated transferee or transferees, one or more new Bonds of the same Stated Maturity, of any authorized denominations, and of a like aggregate principal amount. New Bonds registered, and delivered in an exchange or transfer will be delivered by the Paying Agent/Registrar at the Place of Payment or sent by United States mail at the Registered Owner's written request, risk, and expense.

At the option of the Registered Owner, Bonds may be exchanged for other Bonds of the same Stated Maturity, of any authorized denominations, and of like aggregate principal amount, upon surrender of the Bonds to be exchanged at the Place of Payment. Whenever any Bonds are so

surrendered for exchange, the District will execute, and the Paying Agent/Registrar will register and deliver, the Bonds which the Registered Owner of Bonds making the exchange is entitled to receive.

Every Bond presented or surrendered for transfer or exchange must be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed, by the Registered Owner thereof or his attorney duly authorized in writing.

No service charge may be made to the Registered Owner for any registration, transfer, or exchange of Bonds, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds.

Neither the District nor the Paying Agent/Registrar is required (1) to transfer or exchange any Bond during a period beginning 45 days prior to a Redemption Date hereunder and ending at the close of business on the day of mailing of a notice of redemption or (2) thereafter to transfer or exchange in whole or in part any Bond so selected for redemption.

Authority for Issuance

At an election held within the District on November 8, 2011, the voters within the District approved the issuance of \$200,000,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have \$184,795,000 remaining in authorized but unissued bonds for water, wastewater and drainage facilities. Additionally, at the election held in the District on November 8, 2011, the voters within the District also approved the issuance of \$20,000,000 in bonds for the acquisition and construction of parks and recreational facilities and \$15,000,000 in bonds for the acquisition and construction of roads, all of which remain authorized but unissued. In addition, the District may issue refunding bonds which increase the principle amount of its outstanding bonds.

The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the TCEQ.

Source of and Security for Payment

For each year while any Bond is Outstanding and the District remains in existence the District must assess a continuing direct annual ad valorem tax upon each \$100 valuation of taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, (1) to pay interest on the Bonds as it becomes due, (2) to provide for the payment of the principal of the Bonds when due or the Redemption Price at any earlier required Redemption Date, and (3) to pay the expenses of assessing and collecting such tax.

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

Payment Record

The Bonds constitute the second installment of bonds issued by the District. The District has never defaulted on the timely payment of principal and interest on its outstanding bonds entitled “\$8,600,000 Harris County Municipal Utility District No. 433, Unlimited Tax Bonds, Series 2014” (the “Outstanding Bonds”). The proceeds of the Outstanding Bonds included 24 months of capitalized interest. See “FINANCIAL STATEMENT – Outstanding Bonds.”

Flow of Funds

To provide for the payment of the principal (and Redemption Price) of, interest on, and Paying Agent fees in respect of the Bonds, the District shall maintain a Bond Fund on its books of account as part of its interest and sinking fund. The District shall credit to the Bond Fund all receipts of taxes (and penalty and interest thereon) net of collection costs levied to provide for the payment of principal of and interest on (or fees and expenses of the Paying Agent with respect to) the Bonds, and any other funds of the District deposited to the Bond Fund to pay principal (or Redemption Price) of or interest on the Bonds.

While the Bonds are Outstanding, the Bond Fund shall be used solely to pay principal and Redemption Price of and interest on the Bonds and Paying Agent fees and expenses with respect to the Bonds.

Defeasance of Outstanding Bonds

The Bonds or any principal amount(s) thereof are deemed paid when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at each Stated Maturity or (if notice of redemption has been duly given, irrevocably provided for, or waived as provided herein) to the Redemption Date, together with all interest due thereon, is irrevocably deposited with and held in trust by the Paying Agent/Registrar or an authorized escrow agent, or (ii) Governmental Obligations are irrevocably deposited in trust with the Paying Agent/Registrar or an authorized escrow agent, which Governmental Obligations are certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to pay when due the principal of and interest on such Bonds on and prior to the Stated Maturity thereof. The District covenants that no deposit of moneys or Governmental Securities will be made under this Section and no use made of any such deposit which

would cause the Bonds to be treated as “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or regulations adopted pursuant thereto.

If such deposit is made with respect to some but not all of the Bonds then Outstanding, the District will designate the Stated Maturities of Bonds with respect to which such deposit is made. If such deposit is sufficient to provide for the payment of the principal of and interest on some but not all Outstanding Bonds of a particular Stated Maturity so designated, the Paying Agent/Registrar will select the Outstanding Bonds of such Stated Maturity with respect to which such deposit is made by such random method as the Paying Agent/Registrar deems fair and appropriate and which may provide for the selection of portions (equal to and leaving unredeemed an authorized denomination) of Bonds a denomination larger than \$5,000.

“Governmental Obligations” means (1) direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America, or (2) obligations authorized under Texas law from time to time for discharge and final payment of political or governmental subdivisions which, at the time of deposit have been assigned ratings in the highest rating category of either Moody’s Investors Service or Standard & Poor’s, or any successor to the bond operations of either of such corporations, but in the case of both Clauses (1) and (2) only if such obligations may not be called for redemption prior to maturity.

Paying Agent/Registrar

The District reserves the right in the Order to remove the Paying Agent/Registrar without cause. Every successor Paying Agent/Registrar must at all times be a commercial bank or trust company organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000, subject to supervision or examination by federal or state authority, registered as a transfer agent with the Securities and Exchange Commission. Upon any change in the Paying Agent/Registrar, the District agrees to promptly cause a written notice thereof to be sent to each Registered Owner affected by the change, which notice shall also give the address of the new Paying Agent/Registrar, which shall be the designated Place of Payment.

Record Date

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

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the TCEQ and if necessary the voters of the District, as necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See “THE DISTRICT – General.” The District’s voters have authorized the issuance of a total of \$200,000,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities of which \$184,795,000 will remain authorized but unissued after the issuance 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. At an election held on November 8, 2011, voters in the District authorized the issuance of \$20,000,000 in park and recreational facilities bonds and \$15,000,000 in road bonds, all of which remains authorized but unissued.

Voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes, and the District may issue refunding bonds to refund its outstanding unlimited tax bonds. The District also has the right to enter into certain other obligations including the issuance of revenue bonds and notes, bond anticipation notes and tax anticipation notes without voter approval. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional debt which may be issued by the District. Any additional debt issued by the District may dilute the security of the Bonds. In the opinion of the District’s engineer, voter-authorized bonds will be required for future maintenance of the District’s infrastructure. See “INVESTMENT CONSIDERATIONS – Future Debt.”

Lost, Stolen, Mutilated or Destroyed Bonds

If (1) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the District and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (2) there is delivered to the District and the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the District or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the District shall execute and upon its request the Paying Agent/Registrar shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same Stated Maturity and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

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 issue 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 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.

The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

Specific Tax Covenants

In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith and the manner in which the proceeds of the Bonds are to be invested. The District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Internal Revenue Code of 1986, as amended.

Additional Covenants

The District has additionally covenanted in the Bond Order that it will:

1. To the extent prudent and ordinary for political subdivisions of types and operating properties similar to the District, the District shall maintain its properties in good condition and repair, ordinary wear and tear and obsolescence excepted, and operate such properties in an efficient manner and at a reasonable cost.
2. The District shall maintain insurance on or self-insure its properties of a kind and in an amount which usually would be carried by private companies operating similar properties and engaged in a similar type of business, but considering any governmental immunities to which the District may be entitled.
3. The District shall obtain and comply with the terms and conditions of all franchises, permits, and authorizations obtained from any other governmental agency applicable to or necessary with respect to its properties and shall keep all such franchises, permits, and authorizations in full force and effect.
4. The District shall not mortgage or otherwise encumber the facilities for which the Bonds were issued, or any part thereof, or sell, lease, or otherwise dispose of any substantial portion of such facilities unless in order to cooperate with other political subdivisions or entities to provide for a regional waste disposal or water supply system.

Remedies in Event of Default

The Bond Order provides that, in addition to all other rights and remedies of any owner of Bonds provided by the laws of the State of Texas, in the event the District defaults in the observance or performance of any covenant, condition, or obligation in the Bond Order including payment when due of the principal of and interest on the Bonds, any Bond owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board of Directors or other officers of the District to observe or perform such covenants, conditions, or obligations.

The Bond Order provides no additional remedies to a Bond owner. Specifically, the Bond Order does not provide for an appointment of a trustee to protect and enforce the interests of the Bond owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District’s obligations. Consequently, the remedy of mandamus is a remedy, which may have to be enforced from year to year by the Bond owners.

Texas lower courts have disagreed as to whether statutory language authorizing the District to sue and be sued does not waive the District’s sovereign immunity to suit. Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District’s public purpose property. The Bond owners themselves cannot foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Bonds. In addition, the enforceability of the rights and remedies of the Bond owners may be limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions.

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 ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston without the District’s consent. If the District is annexed, the City will assume the District’s assets and obligations (including the Bonds) and

dissolve the District within ninety (90) days. Annexation of the territory by the City 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 and assume its debt, nor does the District make any representation concerning the ability of the City of Houston to pay debt service on the District's bonds if annexation were to 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.

The District was created, along with the adjacent Harris County Municipal Utility District No. 435 ("HCMUD 435"), by order of the TCEQ effective January 17, 2006. Both the District and HCMUD 435 were confirmed pursuant to elections held within each district on May 13, 2006. On May 14, 2011, the District held an election consolidating the District with HCMUD 435 by terms of a consolidation agreement dated February 1, 2011 (the "Consolidation Agreement"). The terms of the Consolidation Agreement included, among other matters, the assumption of voted but unissued bonds payable in whole or in part from taxes, the levy of taxes to pay for bonds and maintenance taxes, and the adoption of the District as the name of the consolidated district.

Although no additional consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Alteration of Boundaries

In certain circumstances, under Texas law the District may alter its boundaries to: 1) upon satisfying certain conditions, annex additional territory; and 2) exclude land subject to taxation within the District that is not served by District facilities if the District simultaneously annexes land of equal acreage and value that may be practicably served by District facilities. The District would be required to obtain the consent of the City of Houston before adding any land in the City of Houston's extraterritorial jurisdiction or corporate limits. No representation is made concerning the likelihood that the District would effect any further change in its boundaries.

No Arbitrage

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

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the quality of the Bonds as an investment, nor does the Attorney General of Texas pass upon the adequacy or accuracy of the information contained in this Official Statement.

Amendments to Bond Order

The District may, without the consent of or notice to any Bondholder, from time to time and at any time amend the Bond Order in any manner not detrimental to the interests of the Holders of the Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission herein or therein. In addition, the District may, with the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order except that, notwithstanding the foregoing, without the consent of the Holders of all of the affected Outstanding Bonds, no such amendment, addition, or rescission shall (1) change the Stated Maturity of the Bonds or any installment of interest thereon, reduce the principal amount thereof, the Redemption Price therefor, or the rate of interest thereon, change the place or places at, or the coin or currency in, which any Bond or the interest thereon is payable, or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, (3) modify the provisions of the proviso to the definition of the term "Outstanding", or (4) modify any of the provisions of this Section, except to increase the percentage provided hereby or to provide that certain other provisions of the Bond Order cannot be modified or waived.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by the DTC while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participant, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Financial Advisor take any responsibility for the accuracy thereof.

(The remainder of this page intentionally left blank)

USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to finance: (i) Water Plant No. 1 – add ground storage tank No. 2 and crushed concrete access road; (ii) Wastewater treatment plant (“WWTP”) expansion Phase 2; (iii) WWTP permits; (iv) Cypress Creek Lakes drainage channel Phase 1; (v) Land Tejas easement purchase; (vi) Centerpoint right of way easement purchase; (vii) Langham Creek/drainage ditch U132-00 connection; (viii) Gas pipeline relocation; (ix) Land costs – Cypress Creek Lakes drainage channel and drainage channel U132-00; and (x) Operating advance/expenses. In addition, proceeds of the Bonds will be used to pay Developer Interest, up to two years capitalized interest and certain costs associated with the issuance of the Bonds.

The use and distribution of Bond proceeds are set forth below. Of the proceeds to be received from the sale of the Bonds, \$3,909,779 is required for construction costs, and \$2,695,221 is required for non-construction costs, including \$477,571 of capitalized interest (approximately 24 months of interest at 3.615226%).

Construction Costs

A. Developer Contribution Items

1. Cypress Creek Lakes Internal Drainage Channel Phase 1	\$ 319,955
2. Tennessee Gas Pipeline Relocation	427,907
3. Seminole Gas Pipeline Relocation	725,332
4. Langham Creek Ditch - U132-00 Connection	226,209
5. Storm Water Pollution Prevention (4.4% of Item 1)	14,211
6. Engineering and Testing (68.4% of Item 1)	218,832
Total Developer Contribution Items	\$ 1,932,446

B. District Items

1. Water Plant No. 1 - Ground Storage Tank No. 2	\$ 69,037
2. Water Plant No. 1 - Access Road	21,683
3. WWTP Expansion Phase 2	118,902
4. WWTP - Permit Renewals	54,561
5. Engineering and Testing (11.3% of Items 1-3)	23,774
6. Contingency (10% of Item 3)	11,890
7. Land Tejas Easement Purchase	1,571,780
8. CenterPoint Energy Easement Purchase	29,270
9. Land acquisition	
a. Cypress Creek Lakes Internal Drainage Channel	48,156
b. Drainage Channel U132-00	28,280
Total District Items	\$ 1,977,333

Total Construction Costs **\$ 3,909,779**

Non-Construction Costs

A. Legal Fees (2%)	\$ 132,100
B. Fiscal Agent Fees (2.5%)	165,125
C. Interest Costs	
1. Capitalized Interest (2yrs @ 3.615226%)	477,571
2. Developer Interest ^(a)	898,715
D. Bond Discount (2.715%)	179,295
E. Bond Issuance Expenses	28,754
F. Operating Costs	614,809
G. Bond Application Report Costs	40,000
H. Attorney General Fee (0.10%)	6,605
I. TCEQ Bond Issuance Fee (0.25%)	16,513
J. Contingency ^(b)	135,734
Total Non-Construction Costs	\$ 2,695,221

TOTAL BOND ISSUE REQUIREMENT **\$ 6,605,000**

- (a) Preliminary, subject to change. The amount of Developer Interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.
- (b) The TCEQ, in its approval of the Bonds, directed any surplus Bond proceeds to be shown as a contingency line item and be subject to the TCEQ rules of surplus Bond funds.

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any other political subdivision, will be secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS - Source of and Security for Payment"). The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. 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 makes no representation that over the life of the Bonds continued development of property within the District will accumulate or maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. See "Registered Owners' Remedies" below.

Factors Affecting Taxable Values and Tax Payments

Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures: A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for and taxable value of residences. Demand for lots and residential dwellings can be significantly affected by factors such as interest rates, credit availability, foreclosure levels, construction costs, energy availability and the economic prosperity and demographic characteristics of the urban centers toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact existing values.

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on the construction activity, particularly short-term interest rates at which the Developer and homebuilders are able to obtain financing for development and construction costs. As a result of increasing foreclosure activity, potential adverse impact on assessed valuations and a general tightening of credit that has resulted, lenders have increased lending requirements for both single-family mortgage lending and real estate development lending. Additionally, lenders have been increasingly selective in making real estate development loans in the Houston area because of the negative impact to their real estate portfolios. Interest rate levels and the general availability of credit may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District and the ability of potential homeowners to purchase homes. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued development and construction within the District. In addition, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies.

National Economy: Nationally, there has been a significant downturn in new housing construction due to the lack of liquidity and other factors, resulting in a decline in housing market values. The ability of individuals to qualify for a mortgage as well as the general reduction in mortgage availability has also decreased housing sales. The District cannot predict what impact, if any, a return to the downturn in the national housing and financial markets might have on the Houston market and the District.

Competition: The demand for single-family homes in the District could be affected by competition from other residential developments, including other residential developments located in other utility districts located near the District. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods closer to downtown Houston that are for sale. Such homes could represent additional competition for homes proposed to be sold within the District.

The competitive position of the Developer in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position is directly related to 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 Developer will be implemented or, if implemented, will be successful.

Developer under No Obligation to the District: There is no commitment from, or obligation of, any developer to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed lots and tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon developer and the other principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such financial conditions may have on their ability to pay taxes. See "THE DEVELOPER" and "TAX DATA – Principal Taxpayers."

Impact on District Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2014 certified assessed valuation of the District is \$101,014,417 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Requirement will be \$1,088,931 (2035) and the Average Requirement will be \$960,827 (2015 through 2039, inclusive). Assuming (1) no increase or decrease from the 2014 certified assessed valuation, and (2) no use of funds on hand, a tax rate of \$1.14/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Requirement of \$1,088,931, and a tax rate of \$1.01/\$100

assessed valuation at a 95% collection rate would be necessary to pay the Average Requirement of \$960,827. The District's Estimated Assessed Valuation as of November 15, 2014 is \$218,138,335. Based on the assumptions above, a tax rate \$0.53/\$100 assessed valuation and a tax rate of \$0.47/\$100 assessed valuation, both at a 95% tax collection rate, would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. See "DEBT SERVICE REQUIREMENTS – Table 3" and "TAX DATA - Tax Adequacy for Debt Service."

Future and Proposed Legislation

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

Tax Collections and Foreclosure Remedies

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. Additionally, the District's tax lien is on a parity with the liens of all other State and local taxing authorities on the property against which the taxes are levied. Registered Owners are entitled under Texas law to a writ of mandamus to compel the District to perform its obligations. Such remedy would have to be exercised upon each separate default and may prove costly, time consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, and all legal actions would have to be taken on the initiative of, and be financed by, Registered Owners to enforce such remedies. The rights and remedies of the Registered Owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditors' rights generally.

Bond Insurance Risks

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable bond insurance policy (the "Policy") for such payments. However, in the event of any earlier due date of such principal by reason of mandatory or optional redemption, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such redemption. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional redemption of the Bonds which is recovered by the District from the owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the bond insurer (the "Bond Insurer") at such time and in such amounts as would have been due absent such redemption by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies that the Paying Agent exercises and the Bond Insurer's consent may be required in connection with amendments to the Bond Order.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received by the Paying Agent pursuant to the Bond Order. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its ability to pay claims which is predicated upon a number of factors that could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds.

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the Paying Agent may be limited by applicable bankruptcy law or other similar laws related to insolvency. No independent investigation into the ability of the Bond Insurer to pay claims has been made and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given.

Registered Owners' Remedies

Bond owners are entitled under Texas Law to seek a writ of mandamus to compel the District to perform its obligations under the Bond Order. Such remedy would have to be exercised upon each separate default and could prove costly, time-consuming and difficult to enforce. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be taken at the initiative of, and be financed by, Bond owners. The Bond Order does not provide for acceleration of maturity of the Bonds upon any default. Sovereign immunity, public property, bankruptcy, reorganization and other similar laws affecting the enforcement of creditor's rights generally may also limit the rights and remedies of the Bond owners and the enforceability of the Bonds. See "THE BONDS – Remedies in Event of Default."

Bankruptcy Limitation to Registered Owners' Rights

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

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

A district may not be forced into bankruptcy involuntarily.

The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, 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 or fines, including those arising from the failure to pay any real or personal property tax when due and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

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

Marketability

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

Continuing Compliance with Certain Covenants

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. See "THE BONDS – Specific Tax Covenants." Failure by the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "LEGAL MATTERS."

Future Debt

The District has reserved in the Bond Order the right to issue the remaining \$184,795,000 authorized but unissued unlimited tax bonds for water, wastewater and drainage purposes, \$20,000,000 of unlimited tax bonds for parks and recreational facilities, \$15,000,000 of unlimited tax bonds for roads, and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ.

The Developer has advanced funds to pay for the installation of water, wastewater, and drainage facilities and parks and recreational facilities in the District. A portion of the proceeds of the Bonds will be used to reimburse the Developer for a portion of the funds it has advanced. After

receiving proceeds from the Bonds, the District will continue to owe the Developer approximately \$19,005,944 plus interest, which the District intends to pay out of future bond issuances.

Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate). The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. 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." See "FINANCIAL STATEMENT –Bonds Authorized but Unissued."

Environmental Regulation

Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

- Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
- Restricting the manner in which wastes are released into the air, water, or soils;
- Restricting or regulating the use of wetlands or other property;
- Requiring action to prevent or mitigate pollution;
- Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a municipal utility district or other type of district ("Utility Districts") 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 injunctive relief as to future compliance and the ability to operate the Utility District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to Utility Districts, including the District. It should be noted that changes in environmental laws and 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 ("TCEQ") may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston- Galveston area ("HGB area") – Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties – was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA "8-hour" ozone standards are met. In early 2008, both the TCEQ and EPA have taken comments on the submission of a new State Implementation Plan ("SIP") which would account for the severe classification of the HGB area and propose ways of complying with the goals for attainment – the attainment date for severe nonattainment regions is June 15, 2019. To provide for reductions in ozone concentrations as a result of this classification, the EPA and the TCEQ have imposed increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. If the HGB area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

In order to comply with the EPA's standards for the HGB area, the TCEQ has proposed SIPs 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. In response to the severe ozone nonattainment designation, the TCEQ is now working on additional control technology proposals for the next SIP submission to the EPA, which it has requested be finalized by April 2010. This means that additional control strategies will need to be implemented in order to achieve attainment, and it is possible that 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 Utility Districts, including the District, may be required to comply with involve: (1) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the Safe Drinking Water Act ("SWDA"), potable (drinking) water provided by the District to more than twenty-five (25) people or fifteen (15) service connections will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Further, EPA adopted new drinking water rules in 2006 (the Stage 2 Disinfectants and Disinfection Byproducts Rule; the Long Term 2 Enhanced Surface Water Treatment Rule, and the Ground Water Rule), which the TCEQ adopted on December 19, 2007. These new rules, effective January 10, 2008, may increase costs to public water systems for sampling and treatment. Additionally, the EPA has been charged with establishing maximum contaminant levels (MCLs) for potential drinking water contaminants (both naturally occurring and anthropogenic) such as arsenic, lead, radon, and disinfection by-products (e.g. chlorine). Additional

or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

Operations of the District's sewer facilities will be subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring and enforcing wastewater discharge permits. On September 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant Discharge Elimination System ("TPDES") program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a Utility District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. Total maximum daily loads rules can have a significant impact on Utility Districts' ability to obtain and maintain TPDES permits. Utility Districts may be required to expend substantial funds to meet any of these regulatory requirements. If the District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties.

Operations of Utility Districts are also potentially subject to stormwater discharge permitting requirements under the Clean Water Act and EPA and TCEQ regulations. The TCEQ issued a general permit for stormwater discharges associated with industrial activities (which was amended and reissued on September 14, 2006) and a general permit for stormwater discharges associated with small municipal separate storm sewer systems (which was issued on September 13, 2007). Utility Districts are also required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such 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. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

Operations of Utility Districts, including the District, are also potentially subject to requirements and restrictions under the Clean Water Act 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 U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.

Approval of the Bonds

The TCEQ approved the issuance of the Bonds by an order signed on January 6, 2015 (the "TCEQ Order"). The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General does not pass upon or guarantee the quality of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

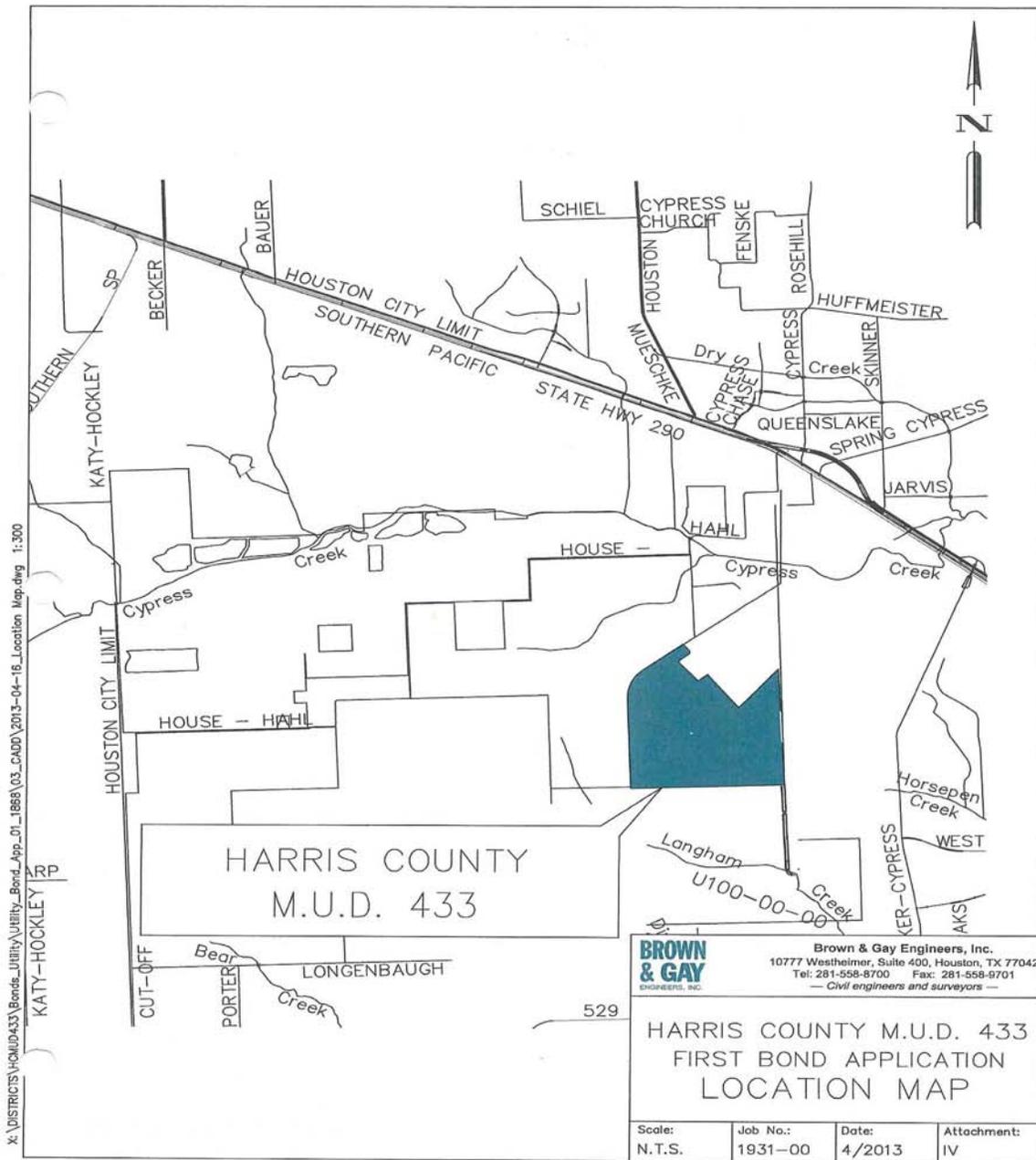
Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

LOCATION MAP



X:\DISTRICTS\HOU\433\Bonds_UTILITY\Utility_Bond_App_01_1868\03_CADD\2013-04-16_Location Map.dwg 1:300

THE DISTRICT

General

The District was created by order of the Texas Commission on Environmental Quality (the "TCEQ"), adopted on January 17, 2006, and by a confirmation election held within the District on May 13, 2006, along with Harris County Municipal Utility District No. 435 ("HCMUD 435"). On May 14, 2011, the District held an election consolidating the District with HCMUD 435 by terms of a consolidation agreement dated February 1, 2011 (the "Consolidation Agreement"). The terms of the Consolidation Agreement included, among other matters, the assumption of voted but unissued bonds payable in whole or in part from taxes, the levy of taxes to pay for bonds and maintenance taxes, and the adoption of the District as the name of the consolidated district. The District operates as a municipal utility district pursuant to the provisions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code and other general statutes of the State of Texas applicable to municipal utility districts. The District is subject to the continuing supervision of the TCEQ. The District as created contained approximately 485.07 acres. After the consolidation election held on May 14, 2011, the District currently contains approximately 797.21 acres.

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 may also provide solid waste collection and disposal service and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District, the City of Houston, and the TCEQ.

Management of the District

Board of Directors: The District is governed by a board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years with elections held within the District on the second Saturday in May in each even numbered year. All of the directors listed below own property within the District.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Length of Service</u>
Clark Martinson	President	2018	8 ½ Years
Scott Forbes	Vice President	2016	8 ½ Years
Debbie Watson-Hartline	Secretary	2018	3 ½ Years
Taylor Cavnar	Treasurer	2018	7 ½ Years
Landon Overby	Assistant Secretary	2016	9 Months

Consultants

Tax Assessor/Collector: The Harris County Appraisal District appraises land and improvements in the District. The Board of Directors of the District appoints the Tax Assessor/Collector. Tax Tech currently serves the District in this capacity under contract. Tax Tech serves approximately 80 other special districts as Tax Assessor/Collector.

Bookkeeper: Avanta Services acts as bookkeeper for the District and currently performs similar services for approximately 23 other special districts.

Operator: The District's water and sewer system is operated by Severn Trent Environmental Services (the "Operator"). The Operator serves in this capacity to 100 other special districts.

Engineer: The District's consulting engineer is Brown & Gay Engineers, Inc. (the "Engineer"). Such firm serves as consulting engineer to over 100 other special districts in the Houston metropolitan area.

Bond Counsel and Disclosure Counsel: The District has engaged Norton Rose Fulbright US LLP, Houston, Texas, to serve as Bond Counsel and Disclosure Counsel in connection with the issuance of the Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds. Such firm also acts as General Counsel to the District on matters not related to the issuance of bonds and is compensated based on time charges actually incurred.

Financial Advisor: Public Finance Group LLC serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based upon the percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Location

The District is located in Harris County within the extraterritorial jurisdiction of the City of Houston, approximately 25 miles northwest of downtown Houston and south of the intersection of U.S. Highway 290 and Fry Road. The District is located entirely within the jurisdiction of the Cypress-Fairbanks Independent School District. The District's is bounded by Harris County Municipal Utility District No. 374 to the north, Harris County Municipal Utility District No. 500 to the east, Harris County Municipal Utility District No. 165 to the south, and Fry Road to the West. Access to the District is provided by U.S. Highway 290 to Fry Road.

Status of Development

Development of the District began in 2011 and, as of January 1, 2015, approximately 504 acres of the approximate 665 developable acres located within the District have been or are being developed with water, sanitary sewer and drainage facilities, as shown in the table below.

	Acreage	Platted Lots	Single Family		
			Completed Homes	Homes Under Construction	Vacant Lots
A. Developed with Utility Facilities					
Cypress Creek Lakes, Section 10	35.20	84	80	2	2
Cypress Creek Lakes, Section 11	57.09	51	51	0	0
Cypress Creek Lakes, Section 12	49.65	108	46	21	41
Cypress Creek Lakes, Section 13	33.78	80	76	0	4
Cypress Creek Lakes, Section 14	16.01	33	25	6	2
Cypress Creek Lakes, Section 16	44.99	80	37	15	28
Cypress Creek Lakes, Section 17	25.92	97	90	0	7
Cypress Creek Lakes, Section 18	27.40	77	77	0	0
Cypress Creek Lakes, Section 19	17.65	68	52	12	4
Cypress Creek Lakes, Section 20	36.88	83	83	0	0
Cypress Creek Lakes, Section 21	<u>44.73</u>	<u>51</u>	<u>0</u>	<u>0</u>	<u>51</u>
Total Developed with Utilities	389.30	812	617	56	139
B. Utility Facilities Under Construction					
Cypress Creek Lakes, Section 15	13.00	42			
Cypress Creek Lakes, Section 25	61.96	102			
Cypress Creek Lakes, Section 26	<u>39.51</u>	<u>121</u>			
Total Under Construction	114.47	265			
C. Remaining Developable Acreage					
Residential	77.46				
Retail/Commercial	<u>84.00</u>				
Total Remaining Developable Acreage	161.46				
D. Undevelopable Acreage ^(a)					
	<u>131.98</u>				
Total	797.21				

(a) Includes the Metropolitan Baptist Church, located on 100 acres.

Residential Development

As of January 1, 2015, development within the District included 812 developed single family lots, 617 completed homes, 56 homes under construction (of which 29 are under contract to a homebuyer), and 139 vacant developed single family lots. Additionally, construction of utility facilities to serve Cypress Creek Lakes Section 15 (13.00 acres; platted as 42 single family lots) began in September 2014 and is expected to be completed by February 2015; construction of utility facilities to serve Cypress Creek Lakes Section 26 (39.51 acres; platted as 121 single family lots) began in November 2014 and is expected to be completed by March 2015; and construction of utility facilities to serve Cypress Creek Lakes Section 25 (61.96 acres; platted as 102 single family lots) began in January 2015 and is expected to be completed by May 2015. In addition, the District currently contains nine lakes totaling approximately 34.4 acres and two recreation centers on approximately 8.04 acres.

Home Builders

According to the Developer, there are seven homebuilders currently active within the District including: Ashton Woods Homes, Darling Homes, Lennar Homes, Newmark Homes, Perry Homes, Village Builders and Taylor Morrison Homes. The Developer has also represented that the homes within the District are being constructed on four lot sizes (50', 60', 70' and 80') with starting prices that range from \$259,990 to \$650,000, and with square footage starting at 1,800 square feet.

Home construction in the District began in 2012. The following chart illustrates the number of homes built per year, starting in 2012.

Calendar Year	No. of Single-Family Homes Constructed
2012	45
2013	220
2014	352
2015	56*

* Includes 56 single family homes under construction as of January 1, 2015.

Retail Development

Approximately 84 acres within the District are projected to be developed as retail or commercial tracts. The Developer has informed the District that approximately 15.8 acres of land within the District, at the intersection of Fry Road and Tuckerton Road, was sold to HEB Grocery Company, Inc. (“HEB”) in 2013 for the development of an HEB grocery store. According to the developer, HEB began construction on an approximately 98,000 square foot HEB Grocery Store in December 2014, which is expected to open in July 2015. The construction of certain wastewater, storm drainage and street improvements will be necessary to serve the commercial improvements and HEB will construct all utility facilities for the site. The Developer plans to develop the balance of the site (approximately 68.2 acres) into additional retail and commercial pad sites. The District gives no assurances whether development of utility facilities and improvements within this tract will occur and HEB is under no obligation to build a HEB Grocery Store within the District.

Future Development

The District contains approximately 665 developable acres, of which approximately 161 acres currently remain undeveloped. If the undeveloped acreage is eventually developed, additions to the District's water, wastewater, and drainage systems required to service such property may be financed by future issues of the District's bonds and developer contributions, if any, as required by the TCEQ. The District's Engineer estimates that the \$184,795,000 authorized bonds which remain unissued will be sufficient to provide utility service to the remaining undeveloped but developable acres (approximately 161 acres) within the District. The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. At an election held on November 8, 2011, voters in the District authorized the issuance of \$20,000,000 in park and recreational facilities bonds and \$15,000,000 in road bonds, all of which remains authorized but unissued. See "THE BONDS - Issuance of Additional Debt." However, the District makes no representation that any future development will occur.

THE DEVELOPER

General

In general, the activities of a landowner or developer within a utility district, such as the District, include purchasing land within the future district, petitioning for creation of the district, designing the development, defining a marketing program, planning building schedules, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities) pursuant to the rules of the TCEQ, and selling improved lots or commercial reserves to builders, other developers or third parties. Ordinarily, the Developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the utility district finances the costs of the water supply and distribution, wastewater collection and drainage facilities. While a landowner or developer is required by the TCEQ to pave streets and pay for its allocable portion of the costs of utilities to be financed by the district through a specific bond issue, if any, a developer is generally under no obligation to a district to undertake development activities with respect to other property it owns within a district. 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 the developer to perform such activities in development of the property within the utility district may have a profound effect on the security for the bonds issued by a district.

Description of Developer

The developer currently active within the District is Mischer Development, LP (“Mischer” or the “Developer”), a Texas Limited Partnership. Mischer has advanced funds to pay for the installation of water, wastewater, and drainage facilities and parks and recreational facilities in the District. A portion of the proceeds of the Bonds will be used to reimburse Mischer for a portion of the funds it has advanced. After receiving proceeds from the Bonds, the District will continue to owe Mischer approximately \$19,005,944 plus interest, which the District intends to pay out of future bond issuances. See “INVESTMENT CONSIDERATIONS – Future Debt.”

Mischer Development, L.P.

As of January 2015, all of the land being developed in the District was owned by Mischer Development, L.P. (“Mischer”). Mischer is composed of Mischer Investments, L.P., a Texas Limited Partnership (“Investments”) (owning a 99% limited partner interest) and Mischer Management, L.L.C., a Texas Limited Liability Company (“Management”) (owning a 1% general partner interest). Mary A. Mischer, Walter M. Mischer, Jr., and Paula Mischer are the sole members of Management. The ownership of Investments is held by members of the Mischer family.

All of the developable acreage in the District is being developed by Mischer, or its subsidiaries or affiliates.

Mischer and its subsidiaries or affiliates have been continuously engaged in the development of real estate in the Houston metropolitan area since 1946. In addition to the District, Mischer, its subsidiaries or affiliates, are presently managing the development of three other subdivisions in the Houston area, most of which are in municipal utility districts.

THE SYSTEM

Regulation

The water, wastewater and storm drainage facilities (the “System”), the purchase, acquisition and construction of which will be financed by the District with the proceeds of the Bonds, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ, Harris County and the City of Houston. According to the Engineer, the design of all such facilities has been approved by all governmental agencies which have authority over the District.

Operation of the District’s waterworks and wastewater facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ.

Water Supply and Distribution

The District owns and operates Water Plant No. 1, located within the District. According to the terms of a contractual agreement between the District and Harris County Municipal Utility District No. 374 (“HCMUD 374”) (the “374 Agreement”), HCMUD 374 financed a portion of water plant No. 1 and a 1,000 gallons per minute (“gpm”) water well located in the District. The District has ownership rights to 304 living-unit-equivalents (“LUE’s”) and HCMUD 374 has ownership rights to 1,363 LUE’s from the water plant. In addition, the District, as of May 31, 2013, also receives surface water from the West Harris County Regional Authority. See “THE SYSTEM – Subsidence and Conversion to Surface Water Supply” below. According to the Engineer, the water plant, water well and surface water currently has a combined capacity of 468 gpm sufficient to serve 780 LUE’s.

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 2001, the Texas legislature created the West Harris County Regional Water Authority (“Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The 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, charges and special assessments 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 the amount of surface water, if any, 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 charge by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority’s GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority’s GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority’s GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$7.00 per 1,000 gallons (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority’s GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the 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 pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

Wastewater Collection and Treatment

The District currently owns and operates a 150,000 gpd wastewater treatment plant. This plant has available capacity to serve 476 LUE's.

100-Year Flood Plain

Approximately 4.21 acres of the District are located within the boundary of the 100-year Flood Plain for Cypress Creek as defined by FEMA Map Number 48201C0405M and 48201C0415M, Harris County Unincorporated Data, dated October 16, 2013. The 4.21 acres located in the 100-year Flood Plain are located at the southwest corner of the property belonging to the Metropolitan Baptist Church. No lots are developed nor are any expected to be developed on the 4.21 acres that are located within the boundary of the 100-year Flood Plain.

Water and Wastewater Operations

Rate and Fee Schedule - Table 1

The Board of Directors of the District establishes rates and fees for water and sewer service. The rates are subject to change from time to time. The following rates were approved on November 12, 2014.

Water (monthly billings)

Residential (Single-Family):

First 5,000 gallons of water used.....	\$18.00 (minimum)
5,000 – 10,000 gallons of water used.....	\$.175 per 1,000 gallons
10,001 – 20,000 gallons of water used.....	\$.200 per 1,000 gallons
In excess of 20,001 gallons of water used.....	\$.250 per 1,000 gallons

Commercial and Recreational Facilities.....\$.155 per 1,000 gallons (\$10.00 minimum)

Sewer (monthly billings)

Each Single Family Residential Connection..... 45% of water bill;
(\$10.00 minimum – without surcharge) plus garbage collection fee

Commercial Connection..... 45% of water bill;
(\$10.00 minimum – without surcharge) garbage collection not included

Tap Fees:

Water:

Single-Family:

$\frac{3}{4}$ " or $\frac{5}{8}$ "	\$850
1"	\$1,500

Commercial:

Cost to the District of installing plus 4 times the square feet in the approved parcel served and 2 times the square feet of floor space in the building above ground level or cost to the District of installing plus \$2,500, whichever is greater.

Wastewater:

Residential \$100

Commercial:

Cost of the tap to the District, plus 25% of such cost or cost plus \$75, whichever is greater.

Miscellaneous:

<i>Residential Deposit</i>	\$100
<i>Returned Check Fee</i>	\$25
<i>Swimming Pool Inspection Fee</i>	\$55

Operating Revenues and Expenses Statement - Table 2

The following statement sets forth in condensed form the historical operations of the District. Operating revenues are not pledged to payment of the Bonds, and the summary is included for general information only. Such summary has been prepared from information obtained from the District's financial statements and records. Reference is made to such statements for further and more complete information. See also "Appendix A – Audited Financial Statements."

	<u>Budget</u> ^(a)	<u>Fiscal Year Ended</u>			
	<u>8/31/2015</u>	<u>8/31/14</u> ^(b)	<u>8/31/13</u> ^(b)	<u>8/31/12</u> ^(b)	<u>8/31/11</u> ^(b)
REVENUES					
Water Service	\$ 200,042	\$ 232,213	\$ 94,940	\$ 663	\$ -
Sewer Service	229,135	144,154	45,449	216	-
Property Taxes	920,292	363,641	117,658	52,471	-
Penalties and Interest	4,800	18,905	2,529	971	-
Tap Connection and Inspection	352,500	510,300	378,685	56,750	-
Surface Water	348,795	239,265	105,727	522	-
Interest	300	207	-	-	-
Miscellaneous	-	15,110	3,017	11	-
TOTAL REVENUES	\$ 2,055,864	\$ 1,523,795	\$ 748,005	\$ 111,604	\$ -
EXPENDITURES					
Water/Wastewater Purchases	\$ 571,731	\$ 300,105	\$ 137,437	\$ -	\$ -
Legal Fees	72,000	119,671	62,461	63,598	25,555
Audit Fees	12,000	10,000	9,500	9,500	-
Engineering Fees	24,000	16,227	227	220	441
Bookkeeping Fees	15,600	18,225	15,974	11,829	2,200
Operator Fees	27,648	34,170	13,795	1,986	156
Garbage Collection	142,341	76,560	19,918	-	-
Security Service	95,928	79,941	47,966	-	-
Tap Connection and Inspection	162,350	289,196	164,885	27,242	-
Tax Assessor/Collector	-	6,000	6,000	5,000	-
Appraisal District	-	2,750	788	285	-
Repairs and Maintenance	196,520	297,404	343,642	43,078	1,772
Utilities	16,200	13,808	3,239	-	-
Director Fees	10,770	8,700	6,150	6,900	1,050
Printing and Office Supplies	6,000	11,441	6,161	4,111	797
Insurance	12,000	11,601	3,911	3,182	-
Other	8,100	17,355	3,907	5,845	163
Capital Outlay	-	23,100	-	60,798	-
TOTAL EXPENDITURES	\$ 1,373,188	\$ 1,336,254	\$ 845,961	\$ 243,574	\$ 32,134
NET REVENUE / (DEFICIT)	\$ 682,676	\$ 187,541	\$ (97,956)	\$ (131,970)	\$ (32,134)
Beginning Fund Balance	\$ 322,926	\$ (149,615)	\$ (34,959)	\$ (15,989)	\$ 16,145
Plus / (Less): Fund Transfers/Advance	-	285,000	(16,700)	113,000	-
Ending Fund Balance	\$ 1,005,602	\$ 322,926	\$ (149,615)	\$ (34,959)	\$ (15,989)

(a) Budget. Preliminary; subject to change.

(b) Audited.

DEBT SERVICE REQUIREMENTS - TABLE 3
Harris County Municipal Utility District No. 433
\$6,605,000
Unlimited Tax Bonds, Series 2015
Dated Date: March 1, 2015
First Interest Payment Due: September 1, 2015

Year Ending 31-Dec	Outstanding Bonds				The Bonds				Total Debt Service Requirements	
	Principal Due (09/01)	Interest		Total	Principal (Due 9/01)	Interest		Principal and Interest		
		Due (03/01)	Due (09/01)			Due (03/01)	Due (09/01)			Total
2015	\$ 125,000	\$ 163,825	\$ 163,825	\$ 452,650	\$ 150,000	\$ -	\$ 112,278	\$ 112,278	\$ 262,278	\$ 714,928
2016	125,000	162,263	162,263	449,525	175,000	109,278	109,278	218,556	393,556	843,081
2017	150,000	160,700	160,700	471,400	175,000	105,778	105,778	211,556	386,556	857,956
2018	150,000	158,825	158,825	467,650	200,000	102,278	102,278	204,556	404,556	872,206
2019	175,000	156,950	156,950	488,900	200,000	98,278	98,278	196,556	396,556	885,456
2020	175,000	154,763	154,763	484,525	200,000	95,278	95,278	190,556	390,556	875,081
2021	200,000	152,575	152,575	505,150	200,000	92,278	92,278	184,556	384,556	889,706
2022	225,000	149,825	149,825	524,650	200,000	89,278	89,278	178,556	378,556	903,206
2023	250,000	146,450	146,450	542,900	200,000	86,278	86,278	172,556	372,556	915,456
2024	275,000	142,450	142,450	559,900	200,000	83,278	83,278	166,556	366,556	926,456
2025	300,000	137,913	137,913	575,825	200,000	80,278	80,278	160,556	360,556	936,381
2026	325,000	132,813	132,813	590,625	200,000	77,278	77,278	154,556	354,556	945,181
2027	350,000	127,125	127,125	604,250	225,000	74,278	74,278	148,556	373,556	977,806
2028	375,000	120,650	120,650	616,300	225,000	70,903	70,903	141,806	366,806	983,106
2029	400,000	113,431	113,431	626,863	250,000	67,528	67,528	135,056	385,056	1,011,919
2030	425,000	105,431	105,431	635,863	250,000	63,622	63,622	127,244	377,244	1,013,106
2031	450,000	96,719	96,719	643,438	275,000	59,559	59,559	119,119	394,119	1,037,556
2032	475,000	87,438	87,438	649,875	275,000	54,919	54,919	109,838	384,838	1,034,713
2033	500,000	77,344	77,344	654,688	300,000	50,278	50,278	100,556	400,556	1,055,244
2034	550,000	66,719	66,719	683,438	300,000	45,028	45,028	90,056	390,056	1,073,494
2035	600,000	54,688	54,688	709,375	300,000	39,778	39,778	79,556	379,556	1,088,931
2036	625,000	41,563	41,563	708,125	300,000	34,528	34,528	69,056	369,056	1,077,181
2037	625,000	27,891	27,891	680,781	325,000	29,091	29,091	58,181	383,181	1,063,963
2038	650,000	14,219	14,219	678,438	350,000	23,200	23,200	46,400	396,400	1,074,838
2039	-	-	-	-	930,000	16,856	16,856	33,713	963,713	963,713
	<u>\$ 8,500,000</u>	<u>\$ 2,752,566</u>	<u>\$ 2,752,566</u>	<u>\$ 14,005,131</u>	<u>\$ 6,605,000</u>	<u>\$ 1,649,128</u>	<u>\$ 1,761,406</u>	<u>\$ 3,410,535</u>	<u>\$ 10,015,535</u>	<u>\$ 24,020,666</u>

(The remainder of this page intentionally left blank)

FINANCIAL STATEMENT
(Unaudited as of February 1, 2015)

Assessed Value - Table 4

2014 Certified Assessed Valuation		\$	101,014,417	(a)
Estimated Assessed Valuation as of November 15, 2014		\$	218,138,335	(b)
 Gross Debt Outstanding (after the issuance of the Bonds)		 \$	 15,105,000	 (c)
Ratio of Gross Debt to 2014 Certified Assessed Valuation			14.95%	
Ratio of Gross Debt to Estimated Assessed Valuation as of November 15, 2014			6.92%	
 2014 Tax Rate				
Debt Service		\$	0.2410	
Maintenance			0.9590	
Total 2014 Tax Rate		\$	1.2000	(d)
 Bond Fund Balance (as of February 11, 2015)		 \$	 694,860	 (e)
Estimated Population as of January 1, 2015.....	2,160			(f)

Area of District: 797.21 acres

- (a) Certified assessed valuation of the District as of January 1, 2014, as provided by the Harris County Appraisal District ("HCAD"). See "TAXING PROCEDURES."
- (b) Estimated assessed valuation as of November 15, 2014, as provided by HCAD, is included solely for purposes of illustration. No tax will be levied on such amount unless it is certified by HCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds.
- (d) The District levied a 2014 tax rate of \$1.20.
- (e) Unaudited as of February 11, 2015. Does not contain approximately twenty-four months' capitalized interest included in the Bond proceeds to be deposited into the Bond Fund upon closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Bond Fund.
- (f) Based upon 3.5 residents per completed and occupied single family home.

Unlimited Tax Bonds Authorized but Unissued - Table 5

Date of Authorization	Purpose	Amount Authorized ^(a)	Issued to Date	Unissued
11/8/2011	Water, Wastewater & Drainage	\$ 200,000,000	\$ 15,205,000 ^(b)	\$ 184,795,000
11/8/2011	Park & Recreational Facilities	20,000,000	-	20,000,000
11/8/2011	Road Facilities	15,000,000	-	15,000,000

- (a) The District has the authority to issue refunding bonds which may increase the Outstanding Bonds. Under City of Houston Ordinances, the District may not issue refunding bonds unless there is net present value savings in the District's debt service.
- (b) Includes the Bonds.

Outstanding Bonds - Table 6

Dated Date	Purpose	Original Series	Original Principal Amount	Principal Amount Outstanding after the Issuance of the Bonds
4/1/2014	Water, Wastewater & Drainage	2014	\$ 8,600,000	\$ 8,500,000
3/1/2015	Water, Wastewater & Drainage	2015	6,605,000	6,605,000 ^(a)
	Total		\$ 15,205,000	\$ 15,105,000

(a) The Bonds.

Cash and Investment Balances - Table 7^(a)

General Fund	\$ 946,442
Bond Fund	694,860 ^(b)
Capital Projects Fund	71,421

(a) Unaudited as of February 11, 2015.

(b) Does not contain approximately twenty-four months' capitalized interest included in the Bond proceeds to be deposited into the Bond Fund upon closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Bond Fund.

Investment Authority and Investment Practices of the District

Under Texas law and the District's current investment policy, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (5) or in any other manner and amount provided by law for District deposits, (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (8) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (9) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (10) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (11) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invested exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield. The District's investment policy is subject to change from time to time by the Board of Directors but any such changes must comply with Chapter 2256, Texas Government Code, the Public Funds Investment Act.

Under Texas law, 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." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements, (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Current Investments - Table 8

The District, as of February 11, 2015, is invested in TexPool. This investment portfolio is generally representative of the District's investment practices. GASB Statement No.3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

Investment Value as of February 11, 2015	
Cash	\$ 261,445
TexPool	<u>1,451,277</u>
Total	\$ 1,712,722

Estimated Overlapping Debt Statement

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

Taxing Body	Gross Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Harris County	\$ 2,229,169,312	1/1/2015	0.029%	\$ 643,368
Harris County Department of Education	7,605,000	1/1/2015	0.029%	2,194
Harris County Flood Control District	83,017,090	1/1/2015	0.030%	24,726
Harris County Toll Road ^(a)	-	1/1/2015	0.000%	-
Harris County ESD No. 9 ^(b)	-	1/1/2015	0.000%	-
Port of Houston Authority	673,026,397	1/1/2015	0.030%	200,489
Lone Star College System	452,277,583	1/1/2015	0.077%	349,929
Cypress Fairbanks Independent School District	1,843,918,376	1/1/2015	0.251%	4,627,732
TOTAL ESTIMATED OVERLAPPING DEBT				\$ 5,848,438
The District ^(c)	\$ 15,105,000	3/1/2015	100.000%	\$ 15,105,000
TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT				\$ 20,953,438
Ratio of Estimated and Overlapping Debt to 2014 Certified Assessed Valuation				20.74%
Ratio of Estimated and Overlapping Debt to Estimated Assessed Valuation as of November 15, 2014				9.61%

(a) No outstanding debt due to self-supporting toll road system.

(b) Taxing jurisdiction with no outstanding debt.

(c) Includes the Bonds.

Overlapping Taxes for 2014

Overlapping Entity	2014 Tax Rate Per	Average
	\$100 Assessed Valuation	Tax Bill ^(a)
	Harris County	Harris County
Harris County	\$0.417310	\$ 1,168
Harris County Department of Education	0.005999	17
Harris County Flood Control District	0.027360	77
Harris County Toll Road ^(b)	-	-
Harris County ESD No. 9	0.060000	168
Port of Houston Authority	0.015310	43
Lone Star College System	0.108100	303
Cypress Fairbanks Independent School District	1.440000	4,032
The District	<u>1.200000</u>	<u>3,360</u>
Total	\$3.274079	\$ 9,167

(a) Based upon the 2014 average single family home value of \$280,000, as provided by the District's tax assessor/collector.

(b) Taxing jurisdiction with no outstanding debt.

TAX DATA

Classification of Assessed Valuation - Table 9

Type of Property	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Land Value	\$ 12,779,434	12.65%	\$ 23,475,957	67.59%	\$ 4,551,644	77.16%
Ag Deferred Value	25,997	0.03%	4,734	0.01%	1,543,383	26.16%
Improvement Value	87,831,031	86.95%	11,619,316	33.46%	-	0.00%
Personal Value	377,955	0.37%	286,979	0.83%	99,840	1.69%
Auto/Other Value	-	0.00%	-	0.00%	-	0.00%
Exemptions	-	0.00%	(655,886)	-1.89%	(295,794)	-5.01%
Total	\$ 101,014,417	100.00%	\$ 34,731,100	100.00%	\$ 5,899,073	100.00%

Tax Collections - Table 10

The following statement of tax collections reflects the historical tax collection experience of the District. Such summary has been prepared for inclusion herein based upon information from District audits and records of the District Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

Tax Year	Assessed Valuation	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
2011	\$ 4,372,542	\$1.2000	\$ 52,471	\$ 52,471	100.00%	\$ 52,471	100.00%	8/31/2012 ^(a)
2012	5,899,073	1.2000	70,789	70,789	100.00%	70,789	100.00%	8/31/2013 ^(a)
2013	29,917,830	1.2000	359,014	359,014	100.00%	359,014	100.00%	8/31/2014 ^(a)
2014	101,014,417	1.2000	1,212,173	<i>In Process of Collection</i>				8/31/2015 ^(b)

(a) Audited.

(b) Taxes were due with no penalty by January 31, 2015.

District Tax Rates - Table 11

Tax Rate per \$100 Assessed Valuation	2014	2013	2012	2011
Debt Service	\$ 0.2410	\$ -	\$ -	\$ -
Maintenance and Operations	0.9590	1.2000	1.2000	1.2000
Total	\$ 1.2000	\$ 1.2000	\$ 1.2000	\$ 1.2000

Tax Rate Limitation

The District's tax rate for debt service on the Bonds is legally unlimited as to rate or amount.

Maintenance Tax

The District has statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District's facilities and for paying for administrative expenses of the District, if such maintenance tax is authorized by the Districts' voters. An election for such tax was held on May 13, 2006 at which time a maintenance tax not to exceed \$1.50 per \$100 assessed valuation was approved by the District's voters. The District levied a 2014 maintenance tax of \$0.9590.

Principal Taxpayers - Table 12

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2014, 2013 and 2012 tax rolls of the District, which reflect ownership as of January 1, of each year shown.

Name	Type of Property	2014	2013	2012
HEB Grocery Company LP	Land Value	\$ 3,998,808	\$ 3,998,808	(a)
Taylor Morrison of Texas Inc.	Land and Improvements	2,014,731	940,797	(a)
Darling Homes of Texas LLC	Land and Improvements	1,530,689	1,127,798	(a)
Perry Homes	Land and Improvements	1,127,309	95,949	(a)
Newmark Homes Houston LLC	Land and Improvements	638,796	(a)	(a)
Ashton Houston Residential LLC	Land and Improvements	627,133	426,323	(a)
Individual Homeowner	Land and Improvements	554,979	(a)	(a)
Individual Homeowner	Land and Improvements	533,843	(a)	(a)
Individual Homeowner	Land and Improvements	529,762	(a)	(a)
Individual Homeowner	Land and Improvements	513,675	(a)	(a)
Metropolitan Baptist Church ^(b)	Church	(a)	4,356,000	4,247,100
Mischer Development LP	Land and Improvements	(a)	1,424,980	1,479,757
Cypress Creek Lakes South	Land and Improvements	(a)	1,378,223	(a)
Lennar Homes of Texas	Land and Improvements	(a)	1,180,204	(a)
Lennar Homes of Texas Land	Land and Improvements	(a)	1,122,481	(a)
Trunkline Gas Company	Personal Property	(a)	(a)	98,130
Mischer Investments LP	Land	(a)	(a)	63,626
Individual Landowners	Land	(a)	(a)	8,750
Centerpoint Energy	Personal Property	(a)	(a)	1,710
Total		<u>\$ 12,069,725</u>	<u>\$ 16,051,563</u>	<u>\$ 5,899,073</u>
Percent of Assessed Valuation		11.95%	53.65%	100.00%

(a) Not a principal taxpayer for respective year.

(b) Beginning in tax year 2014, the Metropolitan Baptist Church became a tax-exempt entity.

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2014 Certified Assessed Valuation and the Estimated Assessed Valuation as of November 15, 2014 and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available Bond Funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS - Impact on District Tax Rates."

Average Requirement on the Bonds and the Outstanding Bonds (2015 through 2039).....	\$960,827
\$1.01 Tax Rate on 2014 Certified Assessed Valuation of \$101,014,417 @ 95% collections produces.....	\$969,233
\$0.47 Tax Rate on Estimated Assessed Valuation as of November 15, 2014 of \$218,138,335 @ 95% collections produces.....	\$973,988
Maximum Requirement on the Bonds and the Outstanding Bonds (2035)	\$1,088,931
\$1.14 Tax Rate on 2014 Certified Assessed Valuation of \$101,014,417 @ 95% collections produces.....	\$1,093,986
\$0.53 Tax Rate on Estimated Assessed Valuation as of November 15, 2014 of \$218,138,335 @ 95% collections produces.....	\$1,098,327

Bond Fund Management Index

Debt Service Requirements for year ending 12/31/15.....		\$714,928 ^(a)
Unaudited Bond Fund Balance as of 10/8/2014.....	\$524,795 ^(b)	
Capitalized Interest included in the proceeds of the Bonds.....	\$477,571 ^(c)	
Projected 2014 Tax Levy @ 95% collections produces.....	<u>\$231,273 ^(d)</u>	
Total Available for Debt Service.....		<u>\$1,233,639</u>
Projected Bond Fund Balance as of September 2, 2015.....		\$ 518,711

- (a) Interest payments on the Bonds begin September 1, 2015.
- (b) Unaudited Bond Fund balance as of October 9, 2014. Represents Bond Fund balance after all 2014 debt service requirements have been paid.
- (c) Approximately twenty-four months of capitalized interest to be deposited into the Bond Fund from proceeds of the Bonds at closing.
- (d) The District levied 2014 debt service tax rate of \$0.2410.

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") establishes an appraisal district and an appraisal review board in each county of the State. The appraisal district is governed by a board of directors which is elected by the governing bodies of cities, towns, school districts, and conservation and reclamation districts such as the District that participate in the appraisal district and of the county. The board of directors of the appraisal district selects a chief appraiser to manage the appraisal offices of the appraisal district. All taxing units within Harris County, including the District, are included in the Harris County Appraisal District (the "Appraisal District"). The Appraisal District is responsible for appraising property within the District, subject to review by the Harris County Appraisal Review Board. The District must use the appraisal roll as approved by the Harris County Appraisal Review Board to establish its tax roll and tax rate. The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property.

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all property with a tax situs in the District is subject to taxation by the District; however, no effort is made by the District to collect taxes on tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: 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 non-profit cemeteries; farm products owned by the producer; and certain property owned by charitable, religious, scientific, literary, student housing, veterans, youth, development or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty has been granted an exemption from \$5,000 up to \$12,000 of assessed value. Additionally, effective January 1, 2012, 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.

Residential Homestead Exemptions: The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt, then the Board may continue to levy and collect taxes against the exempted value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligation of the contract by which the debt was created. The Board has not granted any residential homestead exemptions from ad valorem taxation for any prior years. Also exempt, if approved by the Board or through a process of petition and referendum by the District's voters, are residential homesteads of certain persons who are disabled or at least 65 years old, to the extent of \$3,000 of appraised value or more. The District is authorized by statute to disregard such

exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District. The adoption of a homestead exemption may be considered each year, but must be adopted by May 1. The District has not adopted a general homestead exemption.

Freeport Goods Exemption: Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. 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 is limited to 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. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. 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 or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the City of Houston (after annexation of the District), the Cypress-Fairbanks Independent School District, or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the agreement. Effective September 1, 1999, the terms of the tax abatement agreements of the taxing jurisdiction are not required to be identical.

Valuation of Property for Taxation

Generally, all taxable property in the District must be appraised by the Harris County Appraisal District at one hundred percent (100%) of market value as of January 1 of each year, subject to review and approval by the Appraisal Review Board. In determining market value, either for replacement cost or the market data method of valuation may be used, whichever is appropriate.

Certain land may be appraised at less than market value under the Property Tax Code. A residence homestead is to be appraised solely on the basis of its value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. Increases in the appraised value of residence homesteads are limited to 10 percent annually regardless of the market value of the property. Upon application of a landowner, land which qualifies as "open-space land" is appraised based on the category of land, using accepted income capitalization methods applied to the average net income derived from the use of the land for agriculture and hunting or recreational leases. Upon application of a landowner, land which qualifies as "timber land" is appraised using accepted income capitalization methods applied to the average net income derived from the use of the land for production of timber. Land which qualifies as an aesthetic management zone, critical wildlife management zone, or streamside management zone or is being regenerated for timber production for 10 years after harvest is valued at one-half that amount. In the case of both open space and timber land valuations, if the use of land changes, an additional tax is generally imposed on the land equal to the difference between the taxes imposed on the land for each of the five (5) years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value in each of those years, plus interest at an annual rate of seven percent (7%) calculated from the dates on which the differences would have become due. There are also special appraisal methods for agricultural land owned by individuals whose primary occupation and income are farming and for recreational, park, and scenic land. Also, houses or lots held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business, upon application of the owner.

Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property in the Appraisal District at least one 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.

District and Taxpayer Remedies

The chief appraiser must give written notice before the Appraisal Review Board meeting to an affected owner if a reappraisal has resulted in an increase in value over the prior year or the value rendered by the owner, or if property not previously included on the appraisal roll has been appraised. Any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board of the owner's protest by filing suit in Texas district court. Prior to such appeal, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, but not to exceed the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisal of certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption, or a determination that land qualifies for a special use appraisal (agricultural or timber classification, for example). The District may not, however, protest a valuation of individual property.

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. Those taxes billed at a later date that become delinquent on or after June 1 will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment, and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected.

Rollback of Operation and Maintenance Tax Rate

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property on 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 "TAX DATA - Estimated Overlapping Debt Statement - Overlapping Taxes for 2014." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

(The remainder of this page intentionally left blank)

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of Norton Rose Fulbright US LLP, Houston, Texas ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS – Tax Exemption." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of Bonds actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Bonds.

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

No-Litigation Certificate

The District will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

On two separate occasions in 2013, significant amounts of sand infiltrated the District's sanitary sewer system causing a substantial sand incursion in the wastewater treatment plant, causing significant damage. On each incursion, the District was forced to shut the wastewater treatment plant, remove and haul out the sand and debris, and clean and reseed the plant and bring the plant back on-line. Costs to the District were estimated in January 2014 to be approximately \$180,000. The District believes that the infiltration occurred at a construction site in the District at Metropolitan Baptist Church, and the District has brought suit against the Church and its contractor, Tri Contracting, for recovery of costs at the sewage treatment plant. No trial date has been set for the matter.

No Material Adverse Change

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

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to an opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that, pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions thereunder, interest on the Bonds for federal income tax purposes (1) will be excludable from the gross income, as defined in Section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds. The Bond Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by

persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. 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 its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of Bonds maturing in the years 2026 through 2033, 2035, 2037 and 2039 (the "Discount Bonds") is less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

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

The initial public offering price of Bonds maturing in the years 2015 through 2024 (the "Premium Bonds") is greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such

initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to certain information to the Municipal Securities Rulemaking Board ("MSRB"). Information will be available free of charge by the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 12 and in Appendix A. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by February 28 of each year unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (i) non-payment related defaults; (ii) modifications to rights of Bondholders; (iii) Bond calls; (iv) release, substitution, or sale of property securing repayment of the Bonds; (v) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the 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; and (vi) appointment of a successor or additional trustee or the change of name of a trustee.

The District will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (i) principal and interest payment delinquencies; (ii) unscheduled draws on debt service reserves reflecting financial difficulties; (iii) unscheduled draws on credit enhancements reflecting financial difficulties; (iv) substitution of credit or liquidity providers, or their failure to perform; (v) adverse tax opinions or 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-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (vi) tender offers; (vii) defeasances; (viii) rating changes; and (ix) bankruptcy, insolvency, receivership or similar event of the District (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District).

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports."

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under "Annual Reports" and "Notice of Certain Events" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

Limitations and Amendments

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

The District may amend its continuing disclosure from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (i) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (ii) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter or purchaser from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The District is in compliance with all material provisions of its continuing disclosure undertaking in accordance with SEC Rule 15c2-12.

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Public Finance Group LLC (the "Financial Advisor"), which firm was employed in 2014 as Financial Advisor to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

OFFICIAL STATEMENT

Preparation

The information in this Official Statement was compiled and edited by the District's Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources:

"THE DISTRICT" and "THE SYSTEM" - Brown & Gay Engineers, Inc. (the "Engineer"); "THE DISTRICT" and "THE DEVELOPER" - Mischer Investments LP (the "Developer"); "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized But Unissued" - Records of the District, "FINANCIAL STATEMENT" - Harris County Appraisal District; "FINANCIAL STATEMENT - Estimated Overlapping Debt Statement" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM - Water and Wastewater Operations" - Records; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "BOOK- ENTRY-ONLY-SYSTEM" - Depository Trust Company

Norton Rose Fulbright US LLP has reviewed the summaries included herein contained under the captions "THE BONDS" (but not under the heading "Payment Record"), and "CONTINUING DISCLOSURE OF INFORMATION" (but not under the heading "Compliance with Prior Undertakings"), to determine that such summaries correctly describe the Bonds and the Order for the purposes intended, and that matters discussed herein under the headings "THE DISTRICT - General", "TAXING PROCEDURES", and "TAX MATTERS," are correct as to matters of law.

Consultants

In approving this Official Statement, the District has relied upon the following consultants:

The Engineer: The information contained in the Official Statement relating to engineering matters 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 Brown & Gay Engineers, Inc. and has been included in reliance upon the authority of said firm as experts in the field of civil engineering.

Tax Assessor/Collector: The information contained in this Official Statement relating to the certified assessed valuation of property in the District and, in particular, such information contained in the section captioned "FINANCIAL STATEMENT," has been provided by the Harris County Appraisal District in reliance upon its authority as an expert in the field of appraising and tax assessing. The information contained in this Official Statement relating to tax collection rates, and principal taxpayers has been provided by Esther Flores of Tax Tech, Inc., in reliance upon her authority in the field of tax assessing and collecting.

Auditor: The District's 2014 financial statements were audited by McGrath & Co., PLLC, and excerpts of the District's Audited Financial Statements as of August 31, 2014, have been included as Appendix A in reliance upon such firm's authority in the field of accounting

Updating the Official Statement during Underwriting Period

If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described below. See "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS - Delivery." The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Initial Purchaser provides written notice the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

Certification as to Official Statement

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

Annual Audits

Under State Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the TCEQ within 135 days after the close of the fiscal year once the District has issued bonds or has assets or receipts in excess of \$100,000. Prior to selling bonds or having assets over \$100,000, the District is allowed under State law to file a financial report in lieu of an audit. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any registered owner or other member of the public within a reasonable time on request, upon payment of charges prescribed by the Texas General Services Commission.

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 433, as of the date shown on the first page hereof.

PHOTOGRAPHS

The following photographs were taken in the District. The homes shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See “THE DISTRICT.”







APPENDIX A

The information contained in this appendix include the audited financial statement of Harris County Municipal Utility District No. 433 for the fiscal year ended August 31, 2014.

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 433**

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

August 31, 2014

--oo0oo--

Table of Contents

	<u>Schedule</u>	<u>Page</u>
Independent Auditors' Report		1
Management's Discussion and Analysis		5
BASIC FINANCIAL STATEMENTS		
Statement of Net Position and Governmental Funds Balance Sheet		14
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances		16
Notes to Basic Financial Statements		19
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund		34
Budgetary Comparison Schedule – Special Revenue Fund		35
Notes to Required Supplementary Information		36
TEXAS SUPPLEMENTARY INFORMATION		
Services and Rates	TSI-1	38
General Fund Expenditures	TSI-2	40
Investments	TSI-3	41
Taxes Levied and Receivable	TSI-4	42
Long-Term Debt Service Requirements by Years	TSI-5	43
Change in Long-Term Bonded Debt	TSI-6	44
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7a	46
Comparative Schedule of Revenues and Expenditures – Debt Service Fund	TSI-7b	48
Board Members, Key Personnel and Consultants	TSI-8	49

--oo0oo--

McGrath & Co., PLLC

Certified Public Accountants

P.O. Box 270148
Houston, Texas 77277

Mark W. McGrath CPA
mark@mcgrath-co.com

Colette M. Garcia CPA
colette@mcgrath-co.com

Independent Auditors' Report

Board of Directors
Harris County Municipal Utility District No. 433
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 433, as of and for the year ended August 31, 2014, which collectively comprise the basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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 basic 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 basic financial statements are free of material misstatement.

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

Board of Directors
Harris County Municipal Utility District No. 433
Harris County, Texas

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Municipal Utility District No. 433, as of August 31, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

W. G. Math & Co, P.C.

Houston, Texas
December 10, 2014

Management's Discussion and Analysis

(This page intentionally left blank)

Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2014

Using this Annual Report

Within this section of the financial report of Harris County Municipal Utility District No. 433 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended August 31, 2014. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2014

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at August 31, 2014, was negative \$3,447,035. A comparative summary of the District's overall financial position, as of August 31, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 2,086,032	\$ 409,314
Capital assets	19,775,738	14,508,842
Total assets	<u>21,861,770</u>	<u>14,918,156</u>
Current liabilities	827,052	358,320
Long-term liabilities	<u>24,481,753</u>	<u>15,765,419</u>
Total liabilities	<u>25,308,805</u>	<u>16,123,739</u>
Net position		
Net investment in capital assets	(3,839,395)	(254,953)
Restricted for debt service	524,780	
Restricted for joint water plant operations	28,227	84,569
Unrestricted	<u>(160,647)</u>	<u>(1,035,199)</u>
Total net position	<u>\$ (3,447,035)</u>	<u>\$ (1,205,583)</u>

Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2014

The total net position of the District decreased by \$2,241,452. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2014</u>	<u>2013</u>
Revenues		
Property taxes, penalties and interest	\$ 382,559	\$ 97,469
Water and sewer service	615,632	140,389
Water supply	779,930	673,404
Other	525,782	510,147
Total revenues	<u>2,303,903</u>	<u>1,421,409</u>
Expenses		
Current service operations	2,447,030	1,575,706
Interest and fees	1,045,231	
Debt issuance costs	439,875	
Capital contribution	306,860	
Depreciation	306,359	206,503
Total expenses	<u>4,545,355</u>	<u>1,782,209</u>
Change in net position	(2,241,452)	(360,800)
Net position, beginning of year	(1,205,583)	(844,783)
Net position, end of year	<u>\$ (3,447,035)</u>	<u>\$ (1,205,583)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of August 31, 2014, were \$1,736,638, which consists of \$322,926 in the General Fund, \$524,780 in the Debt Service Fund, \$860,705 in the Capital Projects Fund and \$28,227 in the Special Revenue Fund.

General Fund

Comparative summaries of the General Fund's financial position and activities for the current and prior fiscal year are as follows:

	<u>2014</u>	<u>2013</u>
Total assets	\$ 507,336	\$ 166,359
Total liabilities	\$ 184,397	\$ 315,974
Total deferred inflows	13	
Total fund balance	322,926	(149,615)
Total liabilities, deferred inflows and fund balance	<u>\$ 507,336</u>	<u>\$ 166,359</u>
Total revenues	\$ 1,523,795	\$ 748,005
Total expenditures	(1,336,254)	(845,961)
Revenues over/(under) expenditures	187,541	(97,956)
Net other items, financing sources and uses	285,000	(16,700)
Net change in fund balance	<u>\$ 472,541</u>	<u>\$ (114,656)</u>

Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2014

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. As a result, fund balance in the General Fund for the current year has increased. During the prior year, the District's expenditures exceeded revenues, which resulted in a decrease in fund balance.

Debt Service Fund

The District issued its Series 2014 Unlimited Tax Bonds during the current fiscal year pursuant to a Bond Order adopted by the Board. As required by the Bond Order, a Debt Service Fund was established to account for the accumulation of financial resources restricted for debt service purposes. A summary of the financial position and activities of the Debt Service Fund for the current year is as follows:

Total assets	<u>\$ 524,780</u>
Total fund balance	<u>\$ 524,780</u>
Total revenues	\$ 26,672
Total expenditures	<u>(237,563)</u>
Revenues under expenditures	(210,891)
Total other financing sources	<u>735,671</u>
Net change in fund balance	<u>\$ 524,780</u>

Capital Projects Fund

As required by the Bond Order, a Capital Projects Fund was established to account for the expenditure of bond proceeds. A summary of the financial position and activities of the Capital Projects Fund for the current year is as follows:

Total assets	<u>\$ 861,324</u>
Total liabilities	\$ 619
Total fund balance	<u>860,705</u>
Total liabilities and fund balance	<u>\$ 861,324</u>
Total revenues	\$ 88
Total expenditures	<u>(6,058,714)</u>
Revenues under expenditures	\$ (6,058,626)
Total other financing sources and uses	<u>6,919,331</u>
Net change in fund balance	<u>\$ 860,705</u>

Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2014

Special Revenue Fund

The District has established a Special Revenue Fund to account for activities related to a water plant jointly owned by the District and Harris County Municipal Utility District No. 374. Changes in the Special Revenue Fund for the current and previous fiscal year are as follows:

	2014	2013
Total assets	<u>\$ 192,592</u>	<u>\$ 242,955</u>
Total liabilities	\$ 164,365	\$ 158,386
Total fund balance	<u>28,227</u>	<u>84,569</u>
Total liabilities and fund balance	<u>\$ 192,592</u>	<u>\$ 242,955</u>
Total revenues	\$ 779,930	\$ 673,404
Total expenditures	<u>(836,272)</u>	<u>(729,745)</u>
Revenues under expenditures	(56,342)	(56,341)
Total other financing sources		35,000
Net change in fund balance	<u>\$ (56,342)</u>	<u>\$ (21,341)</u>

Revenues in the Special Revenue Fund consist of charges to participants which are based on the actual cost of providing water to the participants.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$693,193 greater than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2014

Capital Assets

Capital assets held by the District at August 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Capital assets not being depreciated		
Land and improvements	\$ 6,429,118	\$ 5,638,525
Construction in progress	352,671	
	<u>6,781,789</u>	<u>5,638,525</u>
Capital assets being depreciated		
Infrastructure	13,697,729	9,267,738
Less accumulated depreciation	<u>(724,283)</u>	<u>(418,478)</u>
Depreciable capital assets, net	<u>12,993,949</u>	<u>8,870,317</u>
Capital assets, net	<u>\$ 19,775,738</u>	<u>\$ 14,508,842</u>

The District completed construction of the following during the current year:

- Cypress Creek Bend Drive – water, sanitary sewer and drainage facilities
- Cypress Creek Lakes, Section 10, 12, 14, 16, 18 and 19 - water, sanitary sewer and drainage facilities
- Cypress Creek Lakes trunk storm sewer
- Cypress Creek Lakes, Section 21 - amenity lakes

Construction in progress is for the District's share of costs pursuant to the cost sharing agreement with Harris County Municipal Utility District No. 374 for the construction of water re-use facilities. Additional details of the agreement are provided in Note 11 to the basic financial statements.

As discussed in Note 6, the District has contractual commitments in the amount of \$10,362,810 for construction of water, sewer, drainage and road facilities. The District will owe its developer for these projects upon completion of construction.

Long-Term Debt

At August 31, 2014, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2014</u>
2014	\$ 8,500,000

The District did not have any bonded debt as of August 31, 2013.

During the year, the District issued \$8,600,000 in unlimited tax bonds. At August 31, 2014, the District had \$191,400,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$20,000,000 for parks and recreational facilities and \$15,000,000 for road improvements.

Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2014

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and water/sewer services and the projected cost of operating the District and providing services to customers. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2014 Actual</u>	<u>2015 Budget</u>
Total revenues	\$ 1,523,795	\$ 1,815,568
Total expenditures	<u>(1,336,254)</u>	<u>(1,448,188)</u>
Revenues over expenditures	187,541	367,380
Total other financing sources	<u>285,000</u>	
Net change in fund balance	472,541	367,380
Beginning fund balance	<u>(149,615)</u>	<u>322,926</u>
Ending fund balance	<u><u>\$ 322,926</u></u>	<u><u>\$ 690,306</u></u>

Property Taxes

The District's property tax base increased approximately \$51,190,000 for the 2014 tax year from \$29,917,830 to \$81,107,588. This increase was primarily due to new construction in the District. For the 2014 tax year, the District has levied a maintenance tax rate of \$0.959 per \$100 of assessed value and a debt service tax rate of \$0.241 per \$100 of assessed value, for a total combined tax rate of \$1.20 per \$100. Tax rates for the 2013 tax year were \$1.20 per \$100 for maintenance and operations.

(This page intentionally left blank)

Basic Financial Statements

Harris County Municipal Utility District No. 433
Statement of Net Position and Governmental Funds Balance Sheet
August 31, 2014

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Fund	Total
Assets					
Cash	\$ 222,678	\$ -	\$ -	\$ 70,530	\$ 293,208
Investments	162,461	524,780	861,324		1,548,565
Taxes receivable	13				13
Due from other districts				71,583	71,583
Customer service receivables	172,663				172,663
Internal balances	(50,479)			50,479	
Capital assets not being depreciated					
Capital assets, net					
Total Assets	\$ 507,336	\$ 524,780	\$ 861,324	\$ 192,592	\$ 2,086,032
Liabilities					
Accounts payable	\$ 133,741	\$ -	\$ 619	\$ 122,592	\$ 256,952
Other payables	4,866				4,866
Due to other districts				6,773	6,773
Customer deposits	33,450				33,450
Builder deposits	4,000				4,000
Unearned revenue	8,340				8,340
Operating reserve				35,000	35,000
Due to developer					
Long-term debt					
Due within one year					
Due after one year					
Total Liabilities	184,397		619	164,365	349,381
Deferred Inflows of Resources					
Deferred property taxes	13				13
Fund Balances/Net Position					
Fund Balances					
Restricted		524,780	860,705		1,385,485
Committed				28,227	28,227
Unassigned	322,926				322,926
Total Fund Balances	322,926	524,780	860,705	28,227	1,736,638
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 507,336	\$ 524,780	\$ 861,324	\$ 192,592	\$ 2,086,032
Net Position					
Net investment in capital assets					
Restricted for debt service					
Restricted for joint water plant operations					
Unrestricted					
Total Net Position					

See notes to basic financial statements.

<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ -	\$ 293,208
	1,548,565
	13
	71,583
	172,663
6,781,789	6,781,789
<u>12,993,949</u>	<u>12,993,949</u>
<u>19,775,738</u>	<u>21,861,770</u>
	256,952
	4,866
352,671	359,444
	33,450
	4,000
	8,340
	35,000
16,354,433	16,354,433
125,000	125,000
8,127,320	8,127,320
<u>24,959,424</u>	<u>25,308,805</u>
<u>(13)</u>	
(1,385,485)	
(28,227)	
<u>(322,926)</u>	
<u>(1,736,638)</u>	
(3,839,395)	(3,839,395)
524,780	524,780
28,227	28,227
<u>(160,647)</u>	<u>(160,647)</u>
<u>\$ (3,447,035)</u>	<u>\$ (3,447,035)</u>

Harris County Municipal Utility District No. 433

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

For the Year Ended August 31, 2014

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Fund	Total
Revenues					
Water service	\$ 232,213	\$ -	\$ -	\$ -	\$ 232,213
Sewer service	144,154				144,154
Water supply				779,930	779,930
Property taxes	363,641				363,641
Penalties and interest	18,905				18,905
Tap connection and inspection	510,300				510,300
Surface water	239,265				239,265
Accrued interest on bonds sold		26,595			26,595
Miscellaneous	15,110				15,110
Investment earnings	207	77	88		372
Total Revenues	1,523,795	26,672	88	779,930	2,330,485
Expenditures/Expenses					
Current service operations					
Purchased services	49,811				49,811
Professional fees	145,898		297,604	5,480	448,982
Contracted services	506,842			12,268	519,110
Repairs and maintenance	297,404			78,668	376,072
Utilities	13,808			41,106	54,914
Regional Water Authority fees	250,294			690,968	941,262
Administrative	42,333			7,782	50,115
Other	6,764				6,764
Capital outlay	23,100		4,090,432		4,113,532
Debt service					
Principal		100,000			100,000
Interest and fees		137,563	923,943		1,061,506
Bond issuance costs			439,875		439,875
Capital contribution			306,860		306,860
Depreciation					
Total Expenditures/Expenses	1,336,254	237,563	6,058,714	836,272	8,468,803
Revenues Over (Under) Expenditures	187,541	(210,891)	(6,058,626)	(56,342)	(6,138,318)
Other Financing Sources/(Uses)					
Proceeds from sale of bonds		735,671	7,864,329		8,600,000
Bond discount			(258,000)		(258,000)
Repayment of developer advances			(686,998)		(686,998)
Developer advances	285,000				285,000
Net Change in Fund Balances	472,541	524,780	860,705	(56,342)	1,801,684
Change in Net Position					
Fund Balance/Net Position					
Beginning of the year	(149,615)			84,569	(65,046)
End of the year	\$ 322,926	\$ 524,780	\$ 860,705	\$ 28,227	\$ 1,736,638

See notes to basic financial statements.

<u>Adjustments</u>	<u>Statement of Activities</u>
\$ -	\$ 232,213
	144,154
	779,930
13	363,654
	18,905
	510,300
	239,265
(26,595)	
	15,110
	<u>372</u>
<u>(26,582)</u>	<u>2,303,903</u>
	49,811
	448,982
	519,110
	376,072
	54,914
	941,262
	50,115
	6,764
(4,113,532)	
(100,000)	
(16,275)	1,045,231
	439,875
	306,860
306,359	<u>306,359</u>
<u>(3,923,448)</u>	<u>4,545,355</u>
6,138,318	
(8,600,000)	
258,000	
686,998	
<u>(285,000)</u>	
(1,801,684)	
(2,241,452)	(2,241,452)
<u>(1,140,537)</u>	<u>(1,205,583)</u>
<u>\$ (5,183,673)</u>	<u>\$ (3,447,035)</u>

(This page intentionally left blank)

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Municipal Utility District No. 433 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District and Harris County Municipal Utility District No. 435 were each created by the Texas Commission on Environmental Quality effective January 17, 2006, and were confirmed by election on May 13, 2005. HCMUD Nos. 433 and 435 were consolidated by elections held May 14, 2011, in each District, pursuant to a Consolidation Agreement dated February 1, 2011. The District operates in accordance with the Texas Water Code, Chapters 49 and 54.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

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

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has four governmental funds, which are all considered major funds.

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.
- The Special Revenue Fund is used to account for the operation and maintenance of a joint water plant. The principal source of revenues is charges to the participating districts, which equal the costs of operating the plant.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, interest earned on investments and income from District operations. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At August 31, 2014, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets, which primarily consist of water, wastewater, drainage and road facilities, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	20-45 years
Road facilities	45 years

The District's drainage channels are considered improvements to land and are non-depreciable.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District's restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and capitalized interest in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District's committed fund balances in the Special Revenue Fund consist of amounts restricted for the operation of the joint water plant.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectibility of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds		\$ 1,736,638
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 20,504,453	
Less accumulated depreciation	<u>(728,715)</u>	
Change due to capital assets		19,775,738
Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .		(16,354,433)
Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bonds payable, net	(8,252,320)	
Due to other governments	<u>(352,671)</u>	
Change due to certain obligations		(8,604,991)
Property taxes receivable have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		13
Total net position - governmental activities		<u><u>\$ (3,447,035)</u></u>

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

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

Net change in fund balances - total governmental funds		\$ 1,801,684	
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes.			13
Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the <i>Statement of Activities</i> , the cost of capital assets is charged to expense over the estimated useful life of the asset.			
Capital outlays	\$ 4,113,532		
Depreciation expense	<u>(306,359)</u>		
			3,807,173
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.			
Issuance of long term debt	(8,600,000)		
Bond discount	258,000		
Principal payments	100,000		
Interest expense accrual	<u>(10,320)</u>		
			(8,252,320)
Amounts received from the District's developer for operating advances provide financial resources at the fund level, but are recorded as a liability in the <i>Statement of Net Position</i> .			
Operating advances from developer	(285,000)		
Repayment of operating advances	<u>686,998</u>		
			401,998
Change in net position of governmental activities			<u><u>\$ (2,241,452)</u></u>

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District’s written investment policy establishes additional requirements for collateralization of deposits.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements, (9) bankers’ acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District’s investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of August 31, 2014, the District’s investments consist of the following:

<u>Type</u>	<u>Fund</u>	<u>Carrying Value</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
TexPool	General	\$ 162,461	AAAm	85 days
	Debt Service	524,780		
	Capital Projects	861,324		
Total		<u>\$ 1,548,565</u>		

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 3 – Deposits and Investments (continued)

TexPool

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price. Accordingly, the fair value of the District’s position in TexPool is the same as the value of TexPool shares.

Investment Credit and Interest Rate

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District’s investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Amounts Due to/from Other Funds

Amounts due to/from other funds at August 31, 2014, consist of the following:

	Interfund	
	Receivable	Payable
General Fund	\$ -	\$ 50,479
Special Revenue Fund	50,479	
	<u>\$ 50,479</u>	<u>\$ 50,479</u>

Amounts reported as due to/from between funds are considered temporary loans needed for normal operations and will be repaid during the following fiscal year.

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended August 31, 2014, follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land	\$ 5,638,525	\$ 790,593	\$ 6,429,118
Construction in progress		352,671	352,671
	<u>\$ 5,638,525</u>	<u>\$ 1,143,264</u>	<u>\$ 6,781,789</u>
Capital assets being depreciated			
Infrastructure	9,267,738	4,429,991	13,697,729
Road facilities	24,935		24,935
	<u>9,292,673</u>	<u>4,429,991</u>	<u>13,722,664</u>
Less accumulated depreciation			
Infrastructure	(418,478)	(305,805)	(724,283)
Road facilities	(3,878)	(554)	(4,432)
	<u>(422,356)</u>	<u>(306,359)</u>	<u>(728,715)</u>
Subtotal depreciable capital assets, net	<u>8,870,317</u>	<u>4,123,632</u>	<u>12,993,949</u>
Capital assets, net	<u>\$ 14,508,842</u>	<u>\$ 5,266,896</u>	<u>\$ 19,775,738</u>

Depreciation expense for the current year was \$306,359.

Note 6 – Due to Developer

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, drainage and road facilities. Under the agreements, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ. The District does not record the capital asset and related liability on the government wide statements until construction of the facilities is complete.

The District’s developers have also advanced funds to the District for operating expenses.

Changes in amounts due to developer during the year are as follows:

Due to developer, beginning of year	\$ 15,649,379
Developer reimbursements	(4,090,432)
New developer funded construction	5,197,484
Operating advances from developer	285,000
Repayment of operating advances	(686,998)
Due to developer, end of year	<u>\$ 16,354,433</u>

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 6 – Due to Developer (continued)

In addition, the District will owe the developer approximately \$10,362,810, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and audited by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Internal Drainage Channel Phase 4	\$ 983,224	\$ 865,190	\$ 118,033
Internal Drainage Channel Phase 5	1,516,426	784,752	731,674
Cypress Creek Lakes, Section 21 Phase 4 - utilities	1,260,239	1,172,429	87,810
Cypress Creek Lakes, Section 26 - utilities	2,154,476		2,154,476
Cypress Creek Lakes, Section 25 - offsite drainage facilities	997,705		997,705
Cypress Creek Lakes, Section 26 - offsite water, sanitary sewer and drainage facilities	653,605		653,605 428,880
Cypress Creek Lakes, Section 26 - amenity lakes	428,880		348,855
Cypress Creek Lakes, Section 15 - utilities	348,855		2,019,400
Wastewater treatment plant expansion	2,019,400		
	<u>\$ 10,362,810</u>	<u>\$ 2,822,371</u>	<u>\$ 7,540,438</u>

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 8,500,000
Unamortized discounts	(247,680)
	<u>\$ 8,252,320</u>
Due within one year	<u>\$ 125,000</u>

The District’s bonds payable at August 31, 2014, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2014	\$ 8,500,000	\$ 8,500,000	2.50% - 4.375%	September 1, 2014/2038	March 1, September 1	September 1, 2020

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 7 - Long-Term Debt (continued)

At August 31, 2014, the District had authorized but unissued bonds in the amount of \$191,400,000 for water, sewer and drainage facilities; \$20,000,000 for park and recreational facilities; and \$15,000,000 for road improvements.

On April 30, 2014, the District issued its \$8,600,000 Series 2014 Unlimited Tax Bonds at a net effective interest rate of 4.277156% to reimburse developers for operating advances and the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds.

The change in the District's long term debt during the year is as follows:

Bonds payable, beginning of year	\$	-
Bonds issued		8,600,000
Bonds retired		<u>(100,000)</u>
Bonds payable, end of year	<u>\$</u>	<u>8,500,000</u>

As of August 31, 2014, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2015	\$ 125,000	\$ 327,650	\$ 452,650
2016	125,000	324,525	449,525
2017	150,000	321,400	471,400
2018	150,000	317,650	467,650
2019	175,000	313,900	488,900
2020	175,000	309,525	484,525
2021	200,000	305,150	505,150
2022	225,000	299,650	524,650
2023	250,000	292,900	542,900
2024	275,000	284,900	559,900
2025	300,000	275,825	575,825
2026	325,000	265,625	590,625
2027	350,000	254,250	604,250
2028	375,000	241,300	616,300
2029	400,000	226,863	626,863
2030	425,000	210,863	635,863
2031	450,000	193,438	643,438
2032	475,000	174,875	649,875
2033	500,000	154,688	654,688
2034	550,000	133,438	683,438
2035	600,000	109,375	709,375
2036	625,000	83,125	708,125
2037	625,000	55,781	680,781
2038	650,000	28,438	678,438
	<u>\$ 8,500,000</u>	<u>\$ 5,505,134</u>	<u>\$ 14,005,134</u>

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 8 – Property Taxes

On May 14, 2011, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Harris County 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.

Property taxes are collected based on rates adopted in the year of the levy. The District's 2014 fiscal year was financed through the 2013 tax levy, pursuant to which the District levied property taxes of \$1.20 per \$100 of assessed value, all of which was allocated to maintenance and operations. The resulting tax levy was \$359,014 on the adjusted taxable value of \$29,917,830.

Note 9 – Water Supply Agreement

The District and Harris County Municipal Utility District No. 374 ("MUD 374") are party to a water supply agreement, which establishes the terms and conditions under which the districts will allocate costs for the construction and operation of a water plant to serve the districts. The District shall hold legal title to the water plant and the water plant site for benefit of the participants. Each participating district shall have an undivided, equitable interest in the water plant based on the district's allocated share of equivalent single family connections (ESFCs) as a percentage of total available ESFCs. As of August 31, 2014, MUD 374 has an 59% interest and the District has an 41% interest.

The District is responsible for the operation and maintenance of the water plant and has established a separate fund (the Special Revenue Fund) to account for all activity related to the water plant. Each participating district shall be billed monthly based on a pro rata share of water usage. For the fiscal year ended August 31, 2014, MUD 374 was charged \$477,669 and the District was charged \$300,105 for water supplied pursuant to this agreement.

MUD 374 and the District have both paid operating reserves of \$35,000 as of August 31, 2014.

Note 10 – Emergency Water Supply

On May 1, 2010, the District, MUD 374 and Harris County Municipal Utility District No. 418 ("MUD 418") entered into an Emergency Water Supply Contract where each District desires to obtain a supply of potable water for use during emergency situations. During the current year, the District supplied water to MUD 418 in the amount of \$2,155.

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 11 – Cost Sharing Agreement for Wastewater Effluent Treatment Facility

On August 14, 2014, the District and MUD 374 executed an agreement (the “Water Re-Use Agreement”) to share costs related to the design, construction, operation and maintenance of a reclaimed water system consisting of a reclaimed water facility to treat effluent from MUD 374’s wastewater treatment plant and an irrigation pump station to distribute the reclaimed water. MUD 374 will hold legal title to the system with each district having a 50% undivided, equitable interest.

The Water Re-Use Agreement acknowledges that MUD 374 has funded 100% of the costs for the construction of the reclaimed water treatment facility. As of August 31, 2014, this amount is \$705,342. Accordingly, the District owes MUD 374 \$352,671 for its share of construction costs. MUD 374 is responsible for the design and construction of the irrigation pump station and will invoice the District for its share of costs when the amounts have been determined. MUD 374 will account for all funds received from the District separately and will use those funds only for the construction of these facilities.

MUD 374 is responsible for the operation and maintenance of the reclaimed water facility and the pump station. The District may take up to 250,000 gallons per day of reclaimed water, not to exceed 50% of the reclaimed water produced. MUD 374 will account for the operations of the system in a separate account and will invoice the District each month for 50% of the costs incurred in the prior month, excluding any costs associated with the repair and replacement of the pumps at the irrigation pump station, which will be charged to whichever district benefits from the pump.

Note 12 – Regional Water Authority

The District is within the boundaries of the West Harris County Regional Water Authority (the “Authority”), which was created by the Texas Legislature. The Authority is a political subdivision of the State of Texas, governed by an elected nine member Board of Directors. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Coastal Subsidence District, which regulates groundwater withdrawal.

As of August 31, 2014, the Authority’s rates are \$1.90 per 1,000 gallons of water pumped from the District’s wells and \$2.30 for surface water supplied to the District. These rates are subject to future increases. The District passes these costs on to its customers. During the current year, the District recognized \$239,265 in revenues and \$250,294 in expenditures in the General Fund and \$779,930 in revenues and \$690,968 in expenditures in the Surface Water Fund related to surface water conversion.

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2014

Note 13 - Water Trunkline Financing Agreement

On August 13, 2008, the District and its developer entered into a Water Trunkline Financing Agreement with the Authority for the construction of surface water transmission mains to deliver surface water to the District. In September 2011, in accordance with the agreement, the District's developer paid \$613,720 to the Authority on behalf of Harris County Municipal Utility District No. 374 and the District. During the current year, the District reimbursed its developer \$306,860 for its share of the costs related to the construction of the surface water transmission mains. This amount is reported as "Capital Contributions" on the *Statement of Activities*.

Note 14 - Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Required Supplementary Information

Harris County Municipal Utility District No. 433
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended August 31, 2014

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	\$ 111,936	\$ 232,213	\$ 120,277
Sewer service	119,918	144,154	24,236
Property taxes	535,000	363,641	(171,359)
Penalties and interest	900	18,905	18,005
Tap connection and inspection	338,400	510,300	171,900
Surface water	169,211	239,265	70,054
Miscellaneous		15,110	15,110
Investment earnings	875	207	(668)
Total Revenues	<u>1,276,240</u>	<u>1,523,795</u>	<u>247,555</u>
Expenditures			
Current service operations			
Purchased services		49,811	(49,811)
Professional fees	93,200	145,898	(52,698)
Contracted services	327,448	506,842	(179,394)
Repairs and maintenance	143,720	297,404	(153,684)
Utilities	12,000	13,808	(1,808)
Regional Water Authority fees	877,504	250,294	627,210
Administrative	39,020	42,333	(3,313)
Other	4,000	6,764	(2,764)
Capital outlay		23,100	(23,100)
Total Expenditures	<u>1,496,892</u>	<u>1,336,254</u>	<u>160,638</u>
Revenues Over (Under) Expenditures	(220,652)	187,541	408,193
Other Financing Sources			
Developer advances		285,000	285,000
Net Change in Fund Balance	(220,652)	472,541	693,193
Fund Balance			
Beginning of the year	(149,615)	(149,615)	
End of the year	<u>\$ (370,267)</u>	<u>\$ 322,926</u>	<u>\$ 693,193</u>

Harris County Municipal Utility District No. 433
Required Supplementary Information - Budgetary Comparison Schedule - Special Revenue Fund
For the Year Ended August 31, 2014

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water supply	\$ 830,380	\$ 779,930	\$ (50,450)
Total Revenues	<u>830,380</u>	<u>779,930</u>	<u>(50,450)</u>
Expenditures			
Current service operations			
Professional fees	4,500	5,480	(980)
Contracted services	17,200	12,268	4,932
Repairs and maintenance	82,200	78,668	3,532
Utilities	63,000	41,106	21,894
Regional Water Authority fees	650,880	690,968	(40,088)
Administrative	12,600	7,782	4,818
Total Expenditures	<u>830,380</u>	<u>836,272</u>	<u>(5,892)</u>
Revenues Under Expenditures		(56,342)	(56,342)
Fund Balance			
Beginning of the year	84,569	84,569	
End of the year	<u>\$ 84,569</u>	<u>\$ 28,227</u>	<u>\$ (56,342)</u>

***Harris County Municipal Utility District No. 433
Notes to Required Supplementary Information
August 31, 2014***

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund and Special Revenue Fund by the District's Board of Directors. The budgets are prepared using the same method of accounting as for financial reporting. There were no amendments to the budgets during the year.

Texas Supplementary Information

Harris County Municipal Utility District No. 433
TSI-1. Services and Rates
August 31, 2014

1. Services provided by the District During the Fiscal Year:

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

2. Retail Service Providers
 (You may omit this information if your district does not provide retail services)

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate (Y / N)</u>	<u>Rate per 1,000 Gallons Over Minimum Usage</u>	<u>Usage Levels</u>	
Water:	\$ 18.00	5,000	N	\$ 1.75	5,001	to 10,000
				2.00	10,001	to 20,000
				2.50	20,001	to no limit
Wastewater:	\$ 10.00			45% of water bill		to

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 26.75 Wastewater \$ 10.00

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC'S</u>
Unmetered			x 1.0	
less than 3/4"	344	342	x 1.0	342
1"	229	229	x 2.5	573
1.5"	1	1	x 5.0	5
2"	26	26	x 8.0	208
3"	2	1	x 15.0	15
4"	1	1	x 25.0	25
6"			x 50.0	
8"	1	1	x 80.0	80
10"			x 115.0	
Total Water	604	601		1,248
Total Wastewater	570	568	x 1.0	568

See accompanying auditor's report.

Harris County Municipal Utility District No. 433
TSI-1. Services and Rates
August 31, 2014

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):
 (You may omit this information if your district does not provide water)

Gallons pumped into system:	<u>308,272,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>106,892,000</u>	(Gallons billed / Gallons pumped)
Gallons sold to HC MUD 374:	<u>188,408,000</u>	<u>95.79%</u>

4. Standby Fees (authorized only under TWC Section 49.231):
 (You may omit this information if your district does not levy standby fees)

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District (required for first audit year or when information changes,
 otherwise this information may be omitted):

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Harris County

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: _____

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

Entirely Partly Not at all

ETJs in which the District is located: City of Houston

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

See accompanying auditors' report.

Harris County Municipal Utility District No. 433
TSI-2 General Fund Expenditures
For the Year Ended August 31, 2014

Purchased services for resale	<u>\$ 49,811</u>
Professional fees	
Legal	119,671
Audit	10,000
Engineering	<u>16,227</u>
	<u>145,898</u>
Contracted services	
Bookkeeping	18,225
Operator	34,170
Garbage collection	76,560
Security service	79,941
Tap connection and inspection	289,196
Tax assessor/collector	6,000
Appraisal district	<u>2,750</u>
	<u>506,842</u>
Repairs and maintenance	<u>297,404</u>
Utilities	<u>13,808</u>
Regional Water Authority	<u>250,294</u>
Administrative	
Directors fees	8,700
Printing and office supplies	11,441
Insurance	11,601
Other	<u>10,591</u>
	<u>42,333</u>
Other	<u>6,764</u>
Capital outlay	<u>23,100</u>
Total expenditures	<u><u>\$ 1,336,254</u></u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 433
TSI-3. Investments
August 31, 2014

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General TexPool	7939900001	Variable	N/A	<u>\$ 162,461</u>
Debt Service TexPool	7939900002	Variable	N/A	<u>524,780</u>
Capital Projects TexPool	7939900003	Variable	N/A	<u>861,324</u>
Total - All Funds				<u><u>\$ 1,548,565</u></u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 433
TSI-4. Taxes Levied and Receivable
August 31, 2014

	Maintenance Taxes		
Taxes Receivable, Beginning of Year			\$ -
2013 Original Tax Levy			348,935
Adjustments			10,079
Adjusted Tax Levy			<u>359,014</u>
Rollback Taxes			<u>4,640</u>
Total to be accounted for			<u>363,654</u>
Tax collections:			
Current year			<u>363,641</u>
Taxes Receivable, End of Year			<u><u>\$ 13</u></u>
Taxes Receivable, By Years			
2013			<u><u>\$ 13</u></u>
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Property Valuations:			
Land	\$ 23,878,403	\$ 6,095,027	\$ 4,668,336
Improvements	10,659,187		
Personal Property	400,695	99,840	
Exemptions	(5,020,455)	(295,794)	(295,794)
Total Property Valuations	<u><u>\$ 29,917,830</u></u>	<u><u>\$ 5,899,073</u></u>	<u><u>\$ 4,372,542</u></u>
Tax Rates per \$100 Valuation:			
Maintenance tax rates	<u><u>\$ 1.20</u></u>	<u><u>\$ 1.20</u></u>	<u><u>\$ 1.20</u></u>
Adjusted Tax Levy:	<u><u>\$ 359,014</u></u>	<u><u>\$ 70,789</u></u>	<u><u>\$ 52,471</u></u>
Percentage of Taxes Collected to Taxes Levied **	<u><u>100.00%</u></u>	<u><u>100.00%</u></u>	<u><u>100.00%</u></u>

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 14, 2011

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

See accompanying auditors' report.

Harris County Municipal Utility District No. 433
TSI-5. Long-Term Debt Service Requirements
Series 2014--by Years
August 31, 2014

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2015	\$ 125,000	\$ 327,650	\$ 452,650
2016	125,000	324,525	449,525
2017	150,000	321,400	471,400
2018	150,000	317,650	467,650
2019	175,000	313,900	488,900
2020	175,000	309,525	484,525
2021	200,000	305,150	505,150
2022	225,000	299,650	524,650
2023	250,000	292,900	542,900
2024	275,000	284,900	559,900
2025	300,000	275,825	575,825
2026	325,000	265,625	590,625
2027	350,000	254,250	604,250
2028	375,000	241,300	616,300
2029	400,000	226,863	626,863
2030	425,000	210,863	635,863
2031	450,000	193,438	643,438
2032	475,000	174,875	649,875
2033	500,000	154,688	654,688
2034	550,000	133,438	683,438
2035	600,000	109,375	709,375
2036	625,000	83,125	708,125
2037	625,000	55,781	680,781
2038	650,000	28,438	678,438
	<u>\$ 8,500,000</u>	<u>\$ 5,505,134</u>	<u>\$ 14,005,134</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 433
TSI-6. Change in Long-Term Bonded Debt
August 31, 2014

	<u>Bond Issue</u> <u>Series 2014</u>
Interest rate	2.50% - 4.375%
Dates interest payable	3/1; 9/1
Maturity dates	9/1/14 to 9/1/38
Beginning bonds outstanding	\$ -
Bonds issued	8,600,000
Bonds retired	<u>(100,000)</u>
Ending bonds outstanding	<u>\$ 8,500,000</u>
Interest paid during fiscal year	<u>\$ 137,563</u>

Paying agent's name and city
Series 2014

Bank of Texas, Austin, Texas

Bond Authority:	<u>Water, Sewer and</u> <u>Drainage Bonds</u>	<u>Parks and</u> <u>Recreational</u> <u>Facilities</u>	<u>Road Bonds</u>
Amount Authorized by Voters	\$ 200,000,000	\$ 20,000,000	\$ 15,000,000
Amount Issued	(8,600,000)		
Remaining To Be Issued	<u>\$ 191,400,000</u>	<u>\$ 20,000,000</u>	<u>\$ 15,000,000</u>

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investments balances as of August 31, 2014: \$ 524,780

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 583,547

See accompanying auditors' report.

(This page intentionally left blank)

Harris County Municipal Utility District No. 433
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Four Fiscal Periods

	Amounts			
	2014	2013	2012	2011**
Revenues				
Water service	\$ 232,213	\$ 94,940	\$ 663	\$ -
Sewer service	144,154	45,449	216	
Property taxes	363,641	117,658	52,471	
Penalties and interest	18,905	2,529	971	
Tap connection and inspection	510,300	378,685	56,750	
Surface Water	239,265	105,727	522	
Miscellaneous	15,110	3,017		
Investment earnings	207		11	
Total Revenues	<u>1,523,795</u>	<u>748,005</u>	<u>111,604</u>	
Expenditures				
Current service operations				
Purchased services	49,811	137,437		
Professional fees	145,898	72,188	73,318	25,996
Contracted services	506,842	269,326	46,342	2,356
Repairs and maintenance	297,404	343,642	43,078	1,772
Utilities	13,808	3,239		
Regional Water Authority fees	250,294			
Administrative	42,333	18,985	20,038	2,010
Other	6,764	1,144		
Capital outlay	23,100		60,798	
Total Expenditures	<u>1,336,254</u>	<u>845,961</u>	<u>243,574</u>	<u>32,134</u>
Revenues Over/(Under) Expenditures	<u>\$ 187,541</u>	<u>\$ (97,956)</u>	<u>\$ (131,970)</u>	<u>\$ (32,134)</u>
Total Active Retail Water Connections	<u>601</u>	<u>255</u>	<u>24</u>	<u>0</u>
Total Active Retail Wastewater Connections	<u>568</u>	<u>237</u>	<u>18</u>	<u>0</u>

*Percentage is negligible

**For the period of July 13, 2011 to August 31, 2011

See accompanying auditors' report.

Percent of Fund Total Revenues

2014	2013	2011**	2011
15%	13%	1%	
9%	6%	*	
24%	16%	47%	
1%	*	1%	
33%	51%	51%	
17%	14%	*	
1%	*		
*		*	
<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>0%</u>
3%	18%		
10%	10%	66%	N/A
33%	36%	42%	N/A
20%	46%	39%	N/A
1%	*		
16%			
3%	3%	18%	N/A
*	*		
2%		54%	
<u>88%</u>	<u>113%</u>	<u>219%</u>	<u>N/A</u>
<u>12%</u>	<u>-13%</u>	<u>-119%</u>	<u>N/A</u>

Harris County Municipal Utility District No. 433
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Fiscal Year

	<u>Amounts</u>	<u>Percent of</u> <u>Fund Total</u>
	<u>2014</u>	<u>Revenues</u> <u>2014</u>
Revenues		
Accrued interest on bonds sold	\$ 26,595	100%
Investment earnings	77	*
Total Revenues	<u>26,672</u>	<u>100%</u>
Expenditures		
Debt service		
Principal	100,000	375%
Interest and fees	<u>137,563</u>	<u>516%</u>
Total Expenditures	<u>237,563</u>	<u>891%</u>
Revenues Under Expenditures	<u>\$ (210,891)</u>	<u>-791%</u>

*Percentage is negligible

See accompanying auditors' report.

Harris County Municipal Utility District No. 433
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended August 31, 2014

Complete District Mailing Address: 1301 McKinney, Suite 5100, Houston, TX 77010
District Business Telephone Number: (713) 651-3613
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): July 13, 2011
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

<u>Names:</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid *</u>	<u>Expense Reimburse- ments</u>	<u>Title at Year End</u>
Board Members				
Clark Martinson	05/14 - 05/18	\$ 1,800	\$ 270	President
Scott Forbes	05/12 - 05/16	2,100	1,143	Vice President
Debbie Watson-Hartline	05/14 - 05/18	1,800	15	Secretary
Landon K. Overby	04/14 - 05/18	300	34	Assistant Secretary
Taylor Cavnar	05/14 - 05/18	1,650	355	Treasurer
Robin Humphry	09/13 - 04/14	1,050		Former Director
Consultants				
		<u>Amounts Paid</u>		
Fulbright & Jaworski, LLP	02/06	\$ 384,420		Attorney
Severn Trent Services, Inc.	02/06	586,115		Operator
Avanta Services	02/06	235,163		Bookkeeper
Tax Tech, Inc.	02/08	6,000		Tax Collector
Harris County Appraisal District	Legislation	2,098		Property Valuation
Brown & Gay Engineers, Inc.	02/06	26,923		Engineer
McGrath & Co., PLLC	Annual	22,000		Auditor
Public Finance Group, LLC	02/06	234,246		Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.
See accompanying auditors' report.

APPENDIX B
Form of Bond Counsel Opinion

Norton Rose Fulbright US LLP
1301 McKinney, Suite 5100
Houston, Texas 77010-3095
United States

Tel +1 713 651 5151
Fax +1 713 651 5246
nortonrosefulbright.com

We have acted as bond counsel in connection with the issuance by Harris County Municipal Utility District No. 433 (the “*Issuer*”) of its Unlimited Tax Bonds, Series **2015** (the “*Bonds*”) in the aggregate principal amount of \$6,605,000.

In rendering the opinions herein we have examined and relied upon an executed Bond; original or certified copies of the proceedings had in connection with issuance of the Bonds, including the Order of the governing body of the Issuer which authorizes issuance of the Bonds (the “*Order*”); certificates of officers of the Issuer related to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the Issuer, which are within its sole knowledge and control; and such other material and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates.

Based upon such examination, we are of the opinion, that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds are valid and legally binding obligations of the Issuer payable from the sources, and enforceable in accordance with the terms and conditions, described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Bonds are payable from and equally and ratably secured solely by a lien on and pledge of ad valorem taxes levied, without legal limit as to rate or amount, upon all taxable property within the Issuer.

3. Pursuant to the Internal Revenue Code of 1986, as amended and in force on the date hereof (the “*Code*”), and existing regulations, published rulings, and court decisions thereunder, assuming continuing compliance with the provisions of the Order relating to sections 141 through 150 of the Code, interest on the Bonds is excludable from the gross income, as defined in section 61 of the

68247989.1

Code, of the owners thereof for federal income tax purposes pursuant to section 103 of the Code, and such interest will not be included for federal income tax purposes in computing the alternative minimum taxable income of the owners thereof who are individuals.

We call to your attention that interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an “S” corporation or a qualified mutual fund, real estate mortgage investment conduit (REMIC), financial asset securitization investment trust (FASIT), real estate investment trust (REIT)) is includable in its adjusted current earnings for purposes of calculating its alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, “S” corporations with “subchapter C” earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any change in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service or any court; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

APPENDIX C
Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52nd Street, New York, N.Y. 10019
(212) 974-0100